



Economic Affairs / *A Monthly Analysis*

A special supplement to CHALLENGE

July 1, 1961

SUMMER HAS ARRIVED on a swell of cheerful statistics—in all areas but unemployment. The Federal Reserve Index of Industrial Production jumped 3 points in April, rising to 105. For durable goods, the recession's chief laggards, the production index went up by 4 points. In Washington there is even talk about inflationary problems returning to the scene.

Inventory liquidation, the main precipitating cause of the recession, seems to be over. Factory inventories are rising. When the second quarter figures are in, total inventories—which include goods on retailers' shelves—will probably be up a bit. Even if they don't change, there will be quite an improvement over the first quarter of 1961. At that time inventories were dropping at an annual rate of \$4.5 billion.

Cautious observers like the Federal Reserve Bank of New York warn that it will take more than inventory rebuilding to give us a good boom. Inventory-to-sales ratios are still high. Computers are making it possible for many businesses to work with lower levels of inventories than ever before.

Much will depend on the behavior of consumers. The possibilities for an increase in consumer spending are there. Consumers have built up their savings and reduced their indebtedness. If consumers begin to feel more confident, their will to spend may return.

Nevertheless, a high rate of unemployment will remain with us into the upswing. Despite the rise in production, the May rate of unemployment, seasonally adjusted, went up to 6.9%. Even given further increases in economic activity, a high rate of unemployment will be with us for some time.

* * *

PRICE LEVELS usually rise when business gets better. The Federal Reserve is already looking over its anti-inflation weapons. Although the Board's policy is still "easy," it is hinting loudly that this policy will change. Several of its spokesmen, including the Chairman of the Board of Governors, have pointed out that interest rates can be expected to go up when business activity rises. This will mean lower prices for marketable government bonds.

Although the Federal Reserve will probably let long-term interest rates go up somewhat, the government seems to be determined to drive one type of long-term interest rate down—rates on mortgages. The Federal Housing Administration has cut the interest rate on insured mortgages to 5 1/4%. The Federal National Mortgage Association, popularly known as Fannie May, has raised the price on the mortgages it buys. That helps to drive the rate down.

Antitrust prosecutions are being used in an attempt to keep prices down. The Justice Department is concentrating on attacking price-fixing agreements. Economists have long argued what every consumer knows—that competitive prices are the lowest possible prices consistent with supply and demand. If the Justice Dept. is successful, antitrust prosecutions could become a new weapon against inflation.

SPECIAL CORRESPONDENCE—Some hard-headed political maneuvering in Congress has enabled the Administration to push through 4 of the 5 pieces of legislation which the President described as the cornerstone of his New Frontier structure. Depressed areas, minimum wage, aid to education and housing have all been covered in reasonable fashion as far as the Administration is concerned. Medical care for the aged under Social Security has all but been shelved for this session.

These successes, while they came sooner than most observers were willing to predict 4 months ago, involve programs that are not really new departures. They are merely expansions of existing programs. The medical bill, the fifth piece of "must" legislation, is a far more radical confrontation for Congress. Final decision will be put off until the election year of 1962.

Resistance to the foreign aid bill has been more effective than anticipated by the Kennedy forces and reflects the grass roots attitude toward the domestic recession, the gold outflow and the economic recovery of Europe.

But the furor over so-called back-door spending, whereby the Administration hopes to borrow money from the Treasury for long-term foreign aid projects, without annual Congressional appropriations, could take the heat off the more traditional requests for money. The opposition finds itself confronted with a two-headed monster and probably would be satisfied to lop off only one.

The Fed, which remains essentially a conservative body, is contemplating an increase in margin requirements from 70% to 90% in the hope of curbing the continued speculative flurry on Wall Street. This move will probably have little effect these days because there are too many people with money to spare who want to "play the market."

The Administration is embarrassed by the difficulties the Peace Corps is experiencing in attracting qualified recruits. The fear is that conservatives may point to the corps as an example of how "a bunch of do-gooders jump into something without thinking it through carefully." If this charge sticks, it could have serious consequences for the entire foreign aid program of the Administration.

New housing starts have shown a Spring increase, but the improvement has been less impressive than in former postrecession periods. The Administration's answer, a housing bill providing for low down payments and 40-year mortgages, may not give private housing the calculated shot in the arm. Interest rates remain high, as do costs, and the next wave of home buyers will not hit the market for another 5 years.

The pattern of East-West relations, after the Kennedy-Khrushchev Viennese waltz, has become quite clear. Laos is apparently too tempting and too easy a prize for the Reds to give up. Russia is not a completely free agent in this instance in any case. The shadow of Red China looms larger over Asia each day, much to Khrushchev's discomfiture. Still, any involvement in Asia on the part of the United States would make the Russian grab of Berlin that much more likely. The Moscow-Peiping axis will continue to probe to see how far and where we are ready to commit forces.

For the first time in its history the Japanese government has made an anti-trust move against 15 oil refining companies who are charged with conspiring to keep domestic prices high. Not usually prone to frown on cartels, the Tokyo government has been moved by the feeling in some quarters that the Japanese consumer has been paying too high a price for products which sell for much less in international trade.

More bad news for Congress: Iran is about to ask for \$1 billion from the U.S.A.



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Challenge

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Vice President, American Management Association

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A BITTER PILL

NO MAN has had a more difficult time of it during the past few weeks than Adlai Stevenson, our U.N. ambassador who was sent to Latin America to look over a situation that he understood all too well before he ever left home. Notoriously a poor politician, but a man of keen intellect (he used to be called an egghead, remember?), Mr. Stevenson found himself in the unenviable position of having to do some politicking in lands where people don't want what we want to sell, and, painfully for us, where what the people do want we can't offer without upsetting a great number of our own citizens.

Adlai Stevenson must have understood this anomaly of our hemisphere before he left on his mission. But the show had to go on, so he went through the motions of sounding out the temper of our neighbors to the south. He must have come back with the same frustration that he had when he left—the frustrations of a man representing a great nation which cannot easily deal with the world's problems of mass poverty, ignorance, impatience and the perversities of history. Feeling all this and not having an easy solution to this dilemma of his society, Stevenson's whole trip to Latin America must have been a bitter pill for him to swallow. But he had to keep smiling. Saving face is not an Eastern monopoly.

It is a pity that the national figures who know the truth cannot really speak out publicly, because such candor might be interpreted at home as defeatism, among allies as a loss of self-confidence, and by the enemy as an admission of weakness. As for those not in high places, who may also know why we are not doing well in the so-called uncommitted lands, they are obsessed with the fear of being misinterpreted, misunderstood and finally mistrusted. So they, too, have a tendency to keep quiet, to keep their ideas to themselves. Besides, who would listen to *them*?

Yet, I have the feeling that time is running short for us in Latin America and elsewhere, and that if a ground swell of public discussion does not begin on this matter of just what we in the United States can and cannot do to satisfy the rising expectations of people everywhere, we might find ourselves not only outmaneuvered by the enemy but also the victims of a national breakdown brought on by having no policy at all.

This is what we are up against as it seems to me. I have no inside information, and I certainly don't know what Mr. Stevenson or anyone else of equal stature may or may not privately think. I merely feel that the facts

have been clear for some time and that the conclusions I am drawing are the inevitable ones.

- We are not winning the cold war.
- We are losing ground in our own hemisphere.
- The people in many of the underdeveloped areas have little confidence that their governments are going to institute fundamental changes that will improve their economic positions appreciably.

• There is little understanding in most parts of the world of the dynamic progress that *private* savings and investment can activate under a special set of political and social circumstances.

Against this set of realities the United States wants to achieve the following things:

- Win the cold war.
- Set up a special relationship with Latin America to show people everywhere what we are willing to do to help others help themselves.
- Keep our aid programs within the bounds of the established political authorities so that there will be as little chance as possible for revolutionary governments to "take over."
- If at all possible, encourage economic development along free enterprise lines, with Jeffersonian overtones that neither fit the history of the societies we seek to influence nor the tendencies of the ruling circles of these lands.

If this interpretation is correct, the dilemma we are in cannot be resolved by restating our good intentions and by voting money to prove that we mean what we say. The sad fact is that the history of the growth and development of the United States cannot be duplicated elsewhere by seeking the adoption of the same traditions and employing the same techniques as prevailed here.

... not worse than the disease

This is 1961, and the people we are talking to know the difference between 1961 and the hundred years they are behind 1961. They want action right now, and without the painful interval of private capital accumulation and investment that may some day bring three square meals and a passable domicile to millions who for generations have had neither.

For the United States this means that economic aid must be offered with economic planning, target dates for progress and all the trappings of a program that is visibly probable. We may find that in Latin America and elsewhere the preservation of democracy means economic growth first, however it is achieved, and then the rise of individual enterprise as the culminating prize of human liberty.

In short, doctrinaire economics may have to be sacrificed to save the world from the *mortmain* of communism. And if this is a bitter pill, think how much more bitter it would be to have to swallow the victory of the other side.—H. B.

LETTERS TO THE EDITOR

CHALLENGE invites your comments. Address letters to
CHALLENGE, 475 Fifth Avenue, New York 17, N. Y.

DEPRESSED AREA?

• In "New Wine for Old Bottles?" [May, 1961], Norman Ture states: "A fourth extensive depressed area consists of the western half of New Mexico."

If I have been correctly informed, with the exception of the copper mining area in southwest New Mexico, western New Mexico is in excellent condition. The Public Service Co. of Arizona has contracted for the opening of a strip coal mine just north of Gallup and has leased from the Navajos a large coal area near Shiprock, about 97 miles north of Gallup. Two power plants are to be built nearby; in addition, considerable oil and gas is produced in the Farmington area.

I don't see how such an area can be classed as a "depressed area."

L. N. CARY

El Paso, Texas

SOVIET OIL

• Your May issue has an article by James F. McDivitt, "The Threat of Soviet Oil." There are perhaps less than six filling stations in Moscow—two where high octane gas can be purchased. Here is a case of a country actually starving its own people to undermine the capitalistic system. Plenty of oil to break down our system, but nothing for the Russian people.

H. EDWARD WARREN

Buffalo, N.Y.

• That the Soviets are cutting in on the world oil market is no valid reason for the international oil companies to become disturbed. With all the technological advice floating around, the increased knowledge of automation and, of course, the ability of American ingenuity to always come up with "a better mousetrap," I see no reason why the oil companies cannot be expected to meet Soviet competition.

This may prove to be just what the doctor ordered to step up efficiency. I have always been under the impression that one thrives on a diet of competition.

HARRY KRUSE

San Francisco, Calif.

RAILROAD CONTROVERSY

• I have read with considerable interest your analysis of American Railroads [*Economic Affairs*, May, 1961]. While your article characterized American railroads as "chronic invalids," it occurred to me that quite the opposite might be true. The mere fact that railroads are surviving a period in which they are something less than a favored son—and in so doing are still able to carry on a modernization program and continue making significant advances in rail transportation technology—displays, in my opinion, considerable strength. An academic measure of this strength might be obtained by mentally superimposing the conditions under which railroads are operating on other modes of transportation. This would give some slight insight to their relative strengths and weaknesses.

One viewpoint which is often neglected in any discussion of the problems facing railroads is that most of their troubles are imposed on them rather than resulting from superior service or more efficient operations on the part of their competition.

Railroads came into being, grew and flourished because they could provide a basic need, economically, for a growing America. This need exists today to a greater degree than ever before. As other modes of transportation were developed, the railroads were "handicapped" to give these new methods of transportation an opportunity to grow up and become competitive. This "handicap system"—if it was ever necessary—has long outlived its usefulness. Subsidies and punitive legislation not only cloud the issue of "true cost"; they also tend to perpetuate and encourage operations and practices which are marginal and economically unsound.

This is not intended to be an indictment against all methods other than railroads of moving intercity freight. I am merely pointing out that each method of moving freight has advantages peculiar to it alone. A transportation facility should build its future and its growth on inherent advantages rather than attempting to compete for business in areas for which it is unsuited, and in which it is unable to operate competitively.

It is interesting to note that the American railroads are solving their own problems, individually through modernization, and collectively through mergers. This effort is going on without the aid of public money. It would be reassuring if other forms of transportation would take an equally independent and courageous step toward the solution of their problem, which is, of course, attempting to compete with the railroads.

GUY W. WILSON
General Manager
Locomotive and Car
Equipment Dept.
General Electric Co.

Erie, Pa.

• How can we help the railroads, which are the backbone of our country and among the largest taxpayers?

Do away with the ridiculous antique law whereby the Interstate Commerce Commission sets the passenger and freight rates on all of our transportation. This law is outmoded by 50 years. Let us have free competitive enterprise in this field as in most other fields. The good results are obvious. I will go along with a maximum rate, no minimum.

G.M.C. LUCAS

Sarasota, Fla.

ON TAXES

• Mr. Surrey certainly seems to know the meaning of a just, workable and fair tax program. But the Administration doesn't have a prayer of a chance to get its program through Congress—not with that powerful lobby of hotel, motel, restaurant and credit card associations wearing out the carpets on Capitol Hill.

ROGER MCKEAN

Philadelphia, Pa.

LATIN ERROR

• On your inside back cover [May, 1961], may I call your attention to your use of the expression "\$V per duo anni." I am afraid that should be "\$V per duos annos," accusative masculine plural, governed by the preposition "per."

T. ALLEN LYNCH

Fontana, Calif.

• Out of respect for readers whose diplomas are in Latin, would you please quote more accurately your five-year subscription rate. I suggest \$V per duos annos (not duo anni). This may satisfy those die-hards who wish to keep "up to date" on a once dead language.

JOSEPH ALLEN

New York, N.Y.

► *Meus culpus—oops—mea culpa.*—Ed.

OLD PROGRAMS REVAMPED

by MURRAY R. BENEDICT

■ THE KENNEDY ADMINISTRATION is in the process of launching its new farm program. Though some of it has not yet been worked out, and some of it will depend on what the Congress and the farmers decide, enough is available to indicate the kind of program contemplated. Our aim here is to get a balanced view of the shifts in emphasis that are being considered. It is, of course, still too soon for the proposed changes to have any effect on farm prices, incomes or carry-overs (often less accurately called surpluses).

As of this time, legislative action has been taken along two lines: (1) passage of the Feed Grain Bill, *an emergency measure*, and (2) introduction of a proposed Agricultural Act of 1961, *a measure designed for longer-term application*.

The first of these, the Feed Grain Bill, applies only to the 1961 crop. Its purpose is to hold down production of feed grains in the current year with a view to avoiding a further build-up of excess stocks. The reason for concern about the 1961 crop is that the carry-over of feed grains has increased in the last five years from 43.3 million tons in 1956 to 74.7 million tons in 1960. The government's current investment in idle stocks of feed grains (Commodity Credit Corporation holdings) is now in excess of \$4 billion.

The Feed Grain Bill (which is the only one that has thus far been passed) offers farmers higher support prices, plus rental payments for idled acres, on condition that they reduce acreage of corn and grain sorghums by not less than 20 per cent from those of 1959-60. On the acres rented, no crops may be grown and no livestock may be grazed (except that castor beans, sunflowers, sesame or safflower may be grown by sacrificing rentals on the acreages so used).

For farmers who sign up, sup-

port prices will be increased as follows: corn from \$1.06 per bushel to \$1.20; sorghum from \$1.52 to \$1.93; oats from \$.50 to \$.62; barley from \$.77 to \$.92; and rye from \$.90 to \$1.02. Rentals are on the basis of 50 per cent of the average 1959-60 county yield times the county support price. The secretary of Agriculture is authorized to sell some of the stored grains at less than support levels and thus may, if he chooses, force open market prices to levels substantially below those at which the new crop is supported for the farmers who sign up.

The main reason for undertaking a one-year program of this kind is to prevent a further build-up of stocks, which were expected to reach 80 million tons by the fall of 1961 if no action had been taken. A heavy sign-up by growers indicates wide acceptance of the plan. But no important shifts in farm organization are likely to be made on a one-year basis, and existing stocks probably will not be significantly reduced. The relative costs to the government and returns to farmers under this program, as compared with the old one, cannot be estimated until more information is available on the extent of participation and the policies of the Secretary of Agriculture in regard to release of stocks already in hand.

Presumably, a similar program for wheat will be launched in time to affect fall sowings of winter wheat, but this is not yet before the Congress. It also will probably be on a one-year basis and designed mainly to prevent further accumulations rather than as a long-range solution of the problem of excess stocks.

The emergency measures—completed or in prospect—with respect to feed grains and wheat have not aroused any strong sentiment either for or against them. Their effectiveness will depend on whether the

programs prove sufficiently attractive to farmers to induce them to sign up and whether these programs can be put into action fast enough to bring about as much reduction in surpluses as the Administration is hoping for.

Since the emergency measures described above will be water over the dam in another year, our main concern here is the longer-term provisions of the so-called "omnibus bill" (the proposed Agricultural Act of 1961). The bill as now drawn would modify existing law in four principal ways:

(1) It would authorize the appointment of a national advisory committee for each commodity for which the Secretary of Agriculture chooses to appoint one. Plans proposed by these committees would be only advisory. The Secretary of Agriculture could disregard or modify their recommendations if he sees fit, though their views would undoubtedly receive serious consideration.

(2) It would authorize the use of *marketing orders* for any commodity on a national or regional basis. (A marketing order is a directive, issued by the Secretary of Agriculture, which may require *handlers* to maintain certain quality standards, limit the amounts they sell, channel products into certain uses and, in some cases, pay specified minimum prices to producers.)

(3) It would permit the establishment of *marketing quotas* (if voted by the producers) in terms of pounds, bushels or other units rather than in terms of the product of a specified number of acres—as is the case now. (Marketing quotas are limitations placed on the amounts *producers* are allowed to sell.)

(4) It would contemplate adjusting production to domestic and international demand by means of land retirement payments, price-

support loans, government purchases, diversion programs, production-incentive payments, production controls (through quotas and allotments) and export subsidies. Compensatory payments in addition to the prices received in the markets would also be permitted.

Many other matters are included in the bill which, as its nickname implies, attempts to deal with a great many facets of the farm problem. Attention is centered here on the broad implications of the bill rather than on its details. In fact, much of the detail will still have to be worked out even if the bill is passed. It proposes the assignment of very broad powers to the Secretary of Agriculture in respect to the specific type of program to be undertaken.

To those familiar with the farm programs since 1930, it is apparent that the bill does not, in the main, create new tools. Rather it seeks to give wider scope for use of some of the tools that have long been part of the kit and implies making more drastic use of them.

Though the commodity committee provision has been given a good deal of prominence in the press as a "do-it-yourself" approach, it is probable that principal reliance will be on more vigorous application of the other procedures listed above. The advisory committee idea was used extensively by the Federal Farm Board in the Hoover Administration and later in the Agricultural Adjustment Administration under Henry Wallace. It did not work well in the Hoover and Roosevelt Administrations and was virtually abandoned by both of them as problems multiplied. Practical as well as political and constitutional considerations gave rise to numerous difficulties that had not been foreseen when the programs were laid out. But 30 years of experience, various new legal devices and a greatly changed attitude on the part of the courts have undoubtedly eased some of the difficulties.

One of the very practical problems is that of devising a plan for the selection of committeemen that will actually and competently represent the farmers concerned—a plan that will not be extremely vulnerable to charges of political manipulation, a fate which befell the

elaborate system of committees that grew out of the program of the 1930s. Under the bill, as it now stands, the Secretary of Agriculture would have enormous power over these committees since they would be appointed by him. True, he must make his appointments from lists of nominees chosen by the county committees and the farm organizations, but that is not a very severe restriction since, presumably, there would be several nominees for each appointment.

But even if we assume, perhaps unrealistically, high-minded and nonpartisan selection of committeemen, there are other problems that will be more pervasive and probably more acute. Farmers are notorious individualists. It is not easy to get agreement among them, even when their interests appear to coincide. But in this case the interests do not coincide.

For example, when it comes to planning for uniform or nonuniform cutbacks in wheat, will the growers of Northwest white wheat, or of Corn Belt soft red winter, who have almost no surplus, be likely to see eye-to-eye with the people of the



Southwest hard red winter area with its billion-bushel carry-over?

Likewise, it probably will not be easy to achieve full agreement by Florida and California orange growers on a program for citrus. Similar problems exist in the competition between Western and Eastern areas for cotton allotments. In the specialty crops, and perhaps in corn and grain sorghums, these conflicts of interest may be even more difficult to resolve.

What seems rather likely, if the

proposed legislation is passed, is that commodity committees will be established, but that in the process of compromising conflicting views they will come out with watered-down plans, or no plan at all; thus, the Secretary will be virtually forced to take the initiative in devising and implementing an acceptable program. That is what happened when Henry Wallace was presented with an industry-devised sugar program that he was unwilling to put into effect. In situations of that kind an advisory committee tends to become a figurehead rather than an active planning agency. Most of the agricultural programs of the 1930s were put forward by the executive branch of the government and accepted by the farm groups, not planned by the farm groups and accepted by the government.

In brief, there is warrant for some skepticism about the significance of the "plan-it-yourself" feature of the bill, though there obviously is need for a channel of communication between the government and the farm groups. Heretofore, such contact has not, in the main, been on a commodity-by-commodity basis. The general farm organizations, and intercommodity groups such as the National Council of Farmer Cooperatives, have been the key points of contact, except on rather specific legislation of special interest to producers of a given commodity.

The general farm organizations are by no means unanimous in support of the proposed legislation. The American Farm Bureau Federation and the American National Cattleman's Association are actively opposing it. The Farmers Union is for it as it follows in the main a philosophy long advocated by that organization. The National Grange appears to be favorable while the National Council of Farmer Cooperatives indicates approval of some parts and reservations on others.

The underlying philosophy of the commodity-by-commodity approach is somewhat similar to that of the NRA, which was a prominent feature of the New Deal program of the 1930s. There, business groups were encouraged to develop "codes" which, if agreed to by the industry and approved by the President, were

to have the force of law. Great difficulties were encountered because of overlappings and inconsistencies among different codes that might apply to the same business organization. The constitutionality of the Act was quickly challenged in various court actions, and the United States Supreme Court invalidated it in 1935 on the ground that it constituted delegation of the legislative function in excess of what could reasonably be permitted under the Constitution.

Considering all of the problems involved, it seems likely that the Administration leaders will find it necessary, as in the 1930s, to formulate plans and seek grower approval of them rather than to follow the slower and more uncertain procedure of relying on producer initiative and reconciling differences within the producer groups. If that is true, reliance will almost certainly be on the procedures listed as 2, 3 and 4 above (marketing orders, marketing quotas and the adjustment of production to demand).

All of these have been used in greater or less degree since 1933. The changes proposed in the bill now before Congress would, in the main, permit carrying them farther, applying them more rigorously and granting more power to the Secretary of Agriculture.

Elected control board

Considerable emphasis is placed on the use of marketing agreements and marketing orders on a national or regional basis as well as in the more restricted way they are now used. Marketing agreements are commitments entered into by the producers and handlers of a given commodity whereby they subject themselves to regulation by an elected control board. This procedure was authorized by the Agricultural Adjustment Act of 1933, but was put into effect mainly with respect to fluid milk and specialty crops.

These are the principal realms in which this technique has been used in the years since, partly because of restrictions written into the law in 1935 and retained thereafter in spite of strong efforts to broaden them in the legislative sessions of 1939 and 1947. In the original Agricultural Adjustment Act of 1933, enforce-

ment of these agreements was to be through licensing of processors and handlers. This meant that the Secretary of Agriculture could put violators out of business by revoking their licenses. There was much objection to allowing him such far-reaching power and considerable doubt as to whether the courts would sustain it.

As a consequence, the law was overhauled in 1935. The licensing feature was eliminated and the Secretary was given authority to issue "marketing orders" designed to carry out the provisions of marketing agreements approved by him.



These provided for fines in case of violation but not for the more drastic procedure of forcing the offender out of business. At that time the Congress also restricted very severely the list of commodities on which marketing orders could be issued. Later efforts to enlarge the list have been unsuccessful even during the Democratic Administrations of Roosevelt and Truman.

The Act now proposed would permit the promulgation of marketing orders on a national or regional basis and for almost any agricultural commodity, provided two-thirds or more of the growers (or those representing two-thirds of the volume handled) approve. This would open the way for use of the marketing order procedure for the major as well as the minor crops, if producers agree. (This, of course, implies use of the proposed commodity advisory groups in developing such programs.)

The experience to date is not encouraging as to the probable success of such a plan for crops grown in widely dispersed areas. Best results have been achieved in the case of

specialty crops grown in restricted areas, where growers can be in fairly close contact and where they have similar interests. Conflicts of interest, and difficulties of communication and enforcement, seem likely to make this procedure extremely difficult if not entirely impractical for the major national products such as wheat, corn, hogs, beef cattle and poultry.

If that proves to be true, main reliance will almost certainly come to be placed on procedures 3 and 4 (marketing quotas and the adjustment of production to demand) which are traditional but would be made more rigorous. Marketing quotas have been permissible since 1938, if promulgated by the Secretary of Agriculture and approved by the growers; but heretofore they have been related to acres allotted rather than to amounts produced. This has presented a major problem. Allotted acres for nearly all of the major crops have been sharply reduced, but yields have increased so rapidly that production has remained high. The proposed Act would permit quotas on *amounts sold*, not the product of a given number of acres.

This would undoubtedly give the Secretary stronger control over the quantities on which price supports would apply, but leaves some very difficult problems (not resolved in the bill) which would result from the build-up of vested interests in rights to market given quantities.

This has become a very serious problem in the existing tobacco program where rights to grow and market tobacco have been capitalized into land values to such an extent that some tobacco lands having tobacco allotments sell for as much as \$1,500 to \$2,500 per acre more than similar lands adjoining them that do not have such allotments. This, of course, tends to defeat the primary purpose of the program, which is to raise current net incomes of growers. Once such lands have changed hands at these inflated prices, the new owner is little better off than if there were no program and land were selling at more normal prices. Similar problems may arise if marketing quotas are assigned to persons rather than to lands.

Some other features of the bill would give the Secretary better and

more realistic control through the fact that he could treat combinations of crops (for example, corn, grain sorghums, barley and wheat for feed) as a single commodity and could deal with any regional or market class as a separate commodity (for example, hard red winter wheat, soft red winter, or Pacific Northwest white wheat). That change is desirable and logical but may give rise to strong opposition in some situations.

Continuing programs

The proposed program does not, of course, rely exclusively on any one device for handling the situation. From 1933 on the Secretary of Agriculture has had very broad latitude in the methods he may use to control production, raise prices and stabilize farm incomes. The specific names used for the programs adopted have been changed from time to time, usually for political reasons, but the underlying principles have not been markedly different. These similarities will probably continue even though other names may be assigned to what are, for the most part, continuing programs.

The Agricultural Adjustment Act of 1933, and related legislation, gave the Secretary of Agriculture very wide authority to use almost any of the plans seriously proposed in preceding years, either separately or in combination. Almost all of them have been tried out. The Act now proposed would give him even wider authority and, in some phases, sharper tools to work with. It is warrantable to raise a question as to whether the tools that were available have been used as vigorously as possible in the program of the past 10 years, but there is also reason to question whether Congress and the farmers would have gone along with plans for more drastic cutbacks than those that were undertaken. That question still exists.

The program will almost certainly envisage extensive use of the devices for adjusting production to demand listed previously. These are and long have been authorized and used. They may be increased in scale, if the Congress is willing to provide more money for them. Land retirement has been a feature of the program in one form or another since

1933. It is currently (under the Soil Bank and Conservation Reserve) keeping about 28 million acres out of production. There have been proposals, by both Republicans and Democrats, that this program be enlarged to 60 or 70 million acres. If this is attempted, the cost will be high and the impact on farm communities in some areas could be severe. Nevertheless, it appears to be about the only program that offers much promise of quick readjustment in the production of wheat and feed grains.

One aspect of the problem which has not as yet come fully into focus is the possibility of an enlarged program for transfer of surpluses to the poorer countries of the world for aid in economic and social development. This almost certainly will be given serious consideration. There is a widespread feeling that, if large outlays are necessary to keep from producing surpluses, it may be more sensible to spend comparable or larger amounts in supplying aid to other countries. It is virtually certain that some program of that type



will be continued, though possibly with a different mechanism than the present one of selling for foreign currencies. But the increase in takings may not be as large as some think. Most of the poorer countries can now obtain, on terms that are possible for them, about as much U.S. wheat, corn and grain sorghums as they are able to assimilate unless their internal economic programs are considerably revamped.

Another section of the bill consolidates, re-enacts and liberalizes the Farmers Home Administration Act of 1946, the program designed

for aid to low-income farmers in the United States. It increases the upper limit on loans of this type from \$20,000 to \$50,000 and extends the period of repayment from 10 years to 15 years. The size of loan authorized appears large for borrowers whose credit rating is such that they are not eligible for regular commercial loans. This section of the bill also liberalizes the provisions for emergency loans (in case of drought, etc.), for soil, water and conservation developments, and for some types of cooperatives.

In summary, the changes thus far made or proposed in the agricultural program as a whole imply increased emphasis on the marketing agreement approach, more vigorous efforts to cut back feed grain and wheat production, and more effort to deal with the problem on a commodity-by-commodity basis. More severe cutbacks in acreages and amounts that can be marketed will be accompanied by somewhat higher price supports. Sales for foreign currencies will presumably be continued, but on a five-year authorization rather than on a year-to-year basis. It is proposed that loans to low-income farmers be enlarged and liberalized. It can be expected that a more far-reaching Food-for-Peace program will be proposed.

As yet there is insufficient basis for estimates as to the relative costs of the existing and proposed programs. No limits on cost are specified in the legislation now before the Congress. In any event, that is a matter that will be threshed out later in the appropriations committees. There is reason to think, however, that costs to taxpayers and consumers combined will be somewhat higher if the program accomplishes one of its principal objectives—an increase in over-all returns to farmers.

The nature of the program will depend to some extent on whether the bill now before the Congress is passed. Almost certainly some changes will be made in it as a result of hearings and committee consideration. As of now there does not appear to be any preponderant opinion as to whether it will or will not pass. However, many of the tools it provides are available in existing legislation, though some of them are not so sharply honed. ■

Lessons from the West German 'Miracle'

by KARL W. ROSKAMP

■ WHAT LESSONS does West Germany's remarkable postwar economic growth offer to the American economy today with its five million unemployed, gold outflow and "growth gap"? One comforting deduction is that a capitalist economy is still capable of achieving rates of growth comparable to the best that the socialist countries can offer.

But what type of capitalist economy has achieved these growth rates? Was the German "miracle" the result mainly of an orthodox monetary policy and the restoration of the free market that together galvanized private initiative?

This popular view is at best a half-truth. Some of the reasons for calling it a half-truth are reasonably obvious. West Germany had most of the basic ingredients for rapid growth. Its labor force was highly skilled and its physical plant was only partially demolished. Until 1955 it had a labor surplus (which stemmed largely from the inflow of refugees from the east). Its trade unions were rather weak, partly because of this labor surplus. The cost to Germany of the Allied occupation was low; the U.S. provided special economic aid in the early postwar years, and the military burden has only in the past two or three years begun to approximate that of other European countries.

Less obvious, however, has been the major positive role of the government. It has fostered capital formation through large budgetary surpluses and has done much to influence the volume and direction of private investment. These actions, though little noted, shed a rather different light on the German "miracle" and on the mixed character of the postwar German economy. Far from being a paragon of McKinley rectitude, West Germany's eco-

nomic policy is close enough to ours to provide us with some guidance on the effective use of selective fiscal measures to promote economic growth without inflation.

A few words of caution are, however, needed. In this article, I do not attempt to "explain" West Germany's growth. This was a complex process for which no simple explanation can be given. It was not solely due to a return to "free competition"—there is much oligopoly (domination of a market by a few firms) and monopoly in West Germany. Nor was the currency reform in 1948 the only cause. Likewise it cannot be attributed chiefly to general monetary and fiscal policy, trade union behavior or the influx of refugees.

Each of these factors had an important influence, but none of them, taken alone, can furnish an explanation of why the country progressed as fast as it did. The same is true of the important role of public authorities in this process; it is not *the* explanation of why growth rates were high. Nevertheless, governmental influence was a very important ingredient, and it is certainly worthwhile to take a closer look at it.

Proper perspective

To get the impact of governmental action upon the West German growth into the right perspective, and to understand its nature and extent, we must first outline the situation of the economy in 1948.

When Germany was divided after the war, West Germany was separated from agricultural districts in the east and highly developed light industries in central Germany. This forced severe readjustments on the West German economy. Its need for food imports increased and new light industry had to be constructed. Swept into a country devastated by

the war were, between 1945 and 1948, about seven million refugees, many of them initially without employment. Through this influx the housing situation, which was already bad enough, became catastrophic. The lack of raw materials for industry handicapped production in early postwar years, but more important than this, perhaps, was the general lack of incentives.

There was a severe food shortage, which would have been disastrous if Allied supplies had not been available. There were black markets all over the country. Those who could still produce often preferred to hoard products rather than to sell them. In many cases, the reason for this was the fear that no new raw materials could be obtained except by barter.

An extremely severe inflation prevailed. The Allies excluded West Germany from direct international trade and limited its production of steel and other important items. In addition, they had raised income tax rates to such a high level that these alone would have probably been sufficient to strangle a good deal of all incentives.

The West German currency reform in 1948 marked a turning point in the country's history. This measure stimulated business strongly. But it also had many inequitable features. In brief, holders of old Reichsmarks were allowed to convert only a limited amount of them into Deutsche marks, the new currency. Most personal savings, certainly all small savings, the national debt and nearly all business cash reserves were thereby wiped out. But confidence that the new currency would retain its value caused businessmen to offer goods for sale that previously they had hoarded or bartered. Trade revived and the economy started on its upward course.

Accompanying the reform was the abolition of price controls over all but a few important commodities. Allied control of international trade was relaxed. The currency reform, however, discouraged saving by individuals for some time, since small savers had just had virtually all the fruit of their thrift confiscated.

At the time of the currency reform, there were industrial capacity, industrial skills and a powerful

backlog of demand for all sorts of consumer goods—plus excess labor that kept wages down. As a result, profits were initially extremely high. In brief, the currency reform was a hard reform. It was an “efficiency” solution geared to create incentives rather than to promote social justice. It caused a lot of social hardship, but it got the economic machine started.

After 1950 the German “miracle” began; gross national product in constant 1954 prices rose from 113.1 billion DM in 1950 to 233.8 billion DM in 1960. (Four Deutsche marks equalled \$1 during this period.) In 1950 West Germany suffered from substantial unemployment and a large balance of payments deficit; today it has a serious labor shortage, rising prices and a large balance of payments surplus.

An outstanding feature of West Germany's economic growth was the astonishingly high rate of investment. That this was needed was recognized by many West Germans at an early date. Debates in the country's parliament in 1949 indicate that the government was keenly aware of this necessity.

West Germany needed new plants to meet domestic demand and to make its exports competitive in the world market. Big investments were also required to house and provide productive employment for the refugees. Thus the need for rapid capital formation was obvious to all. The problem was how to generate the necessary savings.

However, the Germans were disinclined to save; after both World Wars they had seen their savings wiped out by currency reforms. Thus, voluntary savings could be scarcely relied upon to supply enough funds for capital formation

—at least not in the crucial years between 1950 and 1955. Even if interest rates had been extremely high, they would have scarcely induced a sufficient volume of savings, for incomes were rather low.

In these circumstances the government took a hand in the process of saving and investment. Had it not done so, and left saving and investment to the private decisions of a free market, what would have happened? There would have been too few funds seeking investment, and these would have flowed into sectors of the economy, such as trade, where high profits could be made quickly.

Social considerations and growth

Sectors of the economy vital to sustained growth would have been starved of funds. For instance, mining and basic industries such as steel could scarcely have attracted enough savings—dividends from investments in them would not have been high enough to do so. The fact that the remaining price controls applied largely to basic industries would have kept profit expectations down in this sector. Residential construction would also have been neglected as rent controls would have kept profits down. Not to supply cheap housing for destitute refugees was, however, socially unacceptable. Not to invest in sectors temporarily unprofitable but vital for future economic growth would have been shortsighted.

Therefore, for social reasons and to ensure future economic growth, the government intervened to supply and direct the flow of funds for investment. This government action was carried out on the federal, state and local levels. A tight orthodox monetary policy kept interest rates high. With this was combined a

complex and ingenious fiscal policy, largely implemented by tax exemptions. The often-heard argument that the high interest rates maintained by the Central Bank were the key to West Germany's growth is an oversimplification. It ignores the role of fiscal policy.

Thus, though West Germany had high *nominal* interest rates and high nominal tax rates, the selective tax measures softened their impact. One result of this was that for a long time bank rates were high but capital market rates were low. This was made possible by tax subsidies. Those sectors which were considered important for the country's economic growth or in which investments were necessary for social reasons could obtain low-cost capital market funds. Other sectors had to pay stiff bank rates if they decided to finance investments externally.

How did it happen that the West Germans resorted to an extensive selective use of fiscal policy to further economic growth? The Allied occupational powers immediately after the war had substantially increased many tax rates, particularly on income, in the vain hope of stopping the mounting inflation. After the currency reform the West German government feared that the high tax rates would have a strong adverse effect on the economic incentives of capital and labor. The Allies, however, refused to allow a general tax cut, arguing that high tax revenues were essential to prevent inflation. In fact, they prohibited budget deficits by law.

As a result, the high tax rates, together with a broadening of the tax base due to rising incomes, generated large tax revenues. Moreover, “defense expenditures” (in the form of occupation costs) were relatively small, and as the national debt had been wiped off the slate in 1948, there were no interest charges on it. Thus, the public sector became an important supplier of funds for investment. If the West Germans did not save voluntarily, they certainly saved heavily through taxes.

Budgetary surpluses were used both for large direct government investments and for substantial loans and subsidies to private investors. What the precise criteria were for the allocation of these funds is not known,



but the government clearly had a very effective means for selectively aiding various sectors of the economy and industries. In the period 1948-57, between 35 billion and 40 billion DM were used in this way. Residential construction, agriculture and industry all benefited from these public capital funds.

The tradition of public ownership in Germany facilitated this public capital formation. Government enterprises are much more numerous in West Germany than in the United States. Railroads and the telephone and telegraph systems are operated by the government, as are radio and TV stations. In addition, the government owns completely or in part numerous coal mines, power plants and manufacturing plants. For instance, the much discussed Volkswagen plant is partly public property. A recent study indicates that more than 14 per cent of all corporations are government-owned.

Influence on investment

But the role of government in supplying funds for investment went much beyond supporting public enterprises. Subsidies to housing under the "Social Residential Construction" program totaled about 21 billion DM between 1950 and 1957. Under the "Green Plan" low-cost credits were extended to agriculture. Under the "Investment Aid Law" in effect from 1952 to 1956 business in general was forced (not induced) to provide 1.1 billion DM for "bottle-neck" sectors in industry. All of these programs provided low-cost funds for the private investments that helped to eliminate crucial shortages of capacity.

The influence of public authorities on investment was not limited to direct expenditures. After 1949 a large tax exemption program came into existence to promote investment. For, although West German tax authorities during the Allied occupation had no power to change the high personal and corporate income tax rates, they could grant tax exemptions. At a time when monetary policy was tight and tax rates high, tax exemptions proved to be a very effective means of directing private investments into areas preferred by public authorities.

The tax exemptions granted un-

der this program amounted to about 28 billion DM between 1949 and 1957. Below is a brief summary of the more important of these exemptions.

Accelerated depreciation

Under paragraph 7A of the income tax law introduced in 1948, capital goods (plant, equipment, etc.) acquired after January 1, 1949 could be depreciated up to 50 per cent in the first two years up to a limit of 100,000 DM per firm. Business made extensive use of this accelerated depreciation and applied tax savings to augment working capital. This measure probably cost the government about 1.3 billion DM between 1950 and 1957.

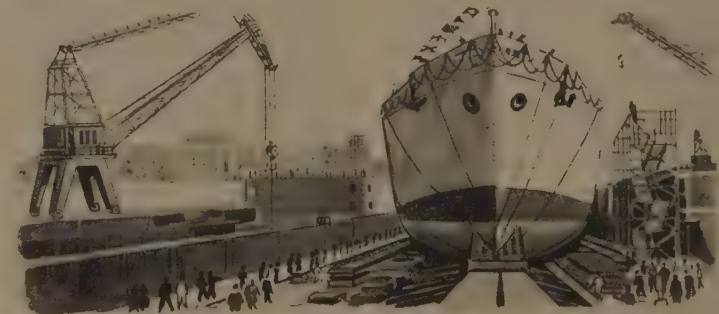
Paragraph 7B of the income tax law provided tax incentives for residential construction. In the first two years after the completion of a house, 20 per cent of its value could be deducted as depreciation. For subsequent years the annual depreciation allowance was three per cent. Thus in 12 years one could deduct 50 per cent as depreciation. The amounts deducted under this provision were substantial. They in-

creased from 38 million DM during 1949 to an estimated 900 million DM in 1957.

Under paragraph 7D, funds loaned for ship building could be declared as a business cost in the year in which they were granted. These loans were to be given free of interest and to be repaid after a stipulated time. After repayment the funds became taxable.

This provision seems to have provided a golden opportunity for corporations to avoid the tax collector and to establish an influence in shipping at the same time. A clever man could do a lot of things under this paragraph. West Germany was surprised in 1957 that a manufacturer of baking powder, through skillful use of this and other tax exemptions, had managed to build up a whole fleet of freighters. Probably 1.5 billion DM were made available under these provisions between 1949 and 1957. This helped, naturally, to rebuild West Germany's merchant marine.

Paragraph 10 of the German Income Tax Law had always allowed certain deductions for payments made to insurance, and building and



loan associations. Contributions to these institutions were considered socially desirable and therefore tax-favored. Only individuals could receive these tax benefits. After 1949 the categories of personal savings which were considered socially desirable were considerably broadened. New forms of tax-exempt savings were introduced. Tax privileges were also granted if specific kinds of tax-exempt securities were bought. The provisions were complicated and changed from year to year. Banks would publish small booklets by tax experts that gave their cus-

tomers the latest information on tax-exempt savings. The provisions were complicated and changed from year to year. Banks would publish small booklets by tax experts that gave their cus-

tomers advice on how to lower tax bills. Deductions made under these provisions constituted the largest budget losses. Between 1949 and 1957 they probably amounted to over 12 billion DM.

Finally, mention should be made of the "Investment Aid Law," the "Law to Favor Exports" and the "Capital Market Law." Deductions made under these laws between 1949 and 1957 probably amounted to 5.5 billion DM.

Over-all picture

Let us summarize the government influence on investment in order to get an over-all picture. Total West German net investment, domestic and foreign, between 1948 and 1957 was approximately 213.5 billion DM; of this, 92.8 billion DM, or 43.5 per cent, was directly supplied by the government. In addition, about 28 billion DM was "influenced" by government, through tax exemption. Thus, about 56 per cent of all net investment between 1948 and 1957 was influenced in one way or another by public preferences. This surely constituted a considerable interference with West Germany's alleged "competitive free market economy."

During the crucial first years of economic revival and growth, the necessary framework was re-established in which the market mechanism could function efficiently. The West Germans made sure that through public interference and guidance the allocation of resources into areas of shortage was facilitated. By 1955 the rapidly expanding West German economy was much nearer to a "free market economy" than it was in 1950.

But while government intervention rapidly increased the efficiency of the economy, the effects on income distribution were probably adverse. We have little precise information on personal income and property distribution during the postwar period. We do know, however, that profits were extremely high and that tax incentives benefited mainly those in the upper-income brackets.

There were, it is true, some factors making for a more equal distribution. The comprehensive West German Social Security System put a

floor under low-income groups. In addition, a large program of partial compensation for war losses may have favored some of the low-income groups. There is good reason to assume that, on balance, the distribution became more unequal. Today, despite the general rise in incomes of all classes, income distribution in West Germany is probably more unequal than in Great Britain or the United States. If this is actually so—and it should be stressed that a lot of research is still necessary to throw more light on this subject—the social cost of the German "miracle" was not inconsiderable.

Of course, the West German economy, economic institutions and social environment are in many respects different from ours. Nevertheless, I believe that some of our problems have a marked family resemblance to West German ones. What lessons, then, can we learn from the West German experience?

Perhaps the most interesting lesson concerns the efficacy and use of selective economic policy measures. To the extent that many of our present economic troubles are of a structural nature which cannot be successfully tackled through general economic policy measures, this lesson has particular relevance for us.

Severe bottleneck problems exist or could come into existence here, as in West Germany—for instance, in education, research, housing, specific industries and urban redevelopment. Selective government expenditures or taxation measures may be the most effective means of eliminating them speedily. Their elimination through the working of the market mechanism may be too slow and may cause an undesirable degree of inflation.

The social cost of relying solely on the market mechanism could be forbidding. To illustrate, in West Germany the provision of housing for refugees was an essential first step toward rehabilitation. This could not be left to the market unless it was decided to exclude low-income receivers for a long time from decent housing. In addition, providing housing in areas where labor was short facilitated the recruitment of a stable labor force. The problem was attacked and large-

ly solved through selective government loans. (Between 1950 and 1957, 34 per cent of all funds used for residential construction were directly supplied by public authorities.)

To the extent that substantial shifts in the location of the U.S. labor force are necessary—and they may now be needed as a consequence of changes in the production or consumption pattern—they could be facilitated through selective government aid. This could take the form of providing retraining facilities, transportation and, if necessary, housing. (The Swedes, in their attempts to maintain a high level of employment, seem to have learned quite a bit from the West Germans in this respect.)

If we wish to increase capital formation to accelerate economic growth, we may think of using tax incentives for investment as the West Germans did. Accelerated depreciation and tax-exempt investment loans may be the answer. In West Germany these had a powerful boosting effect. However, if the U.S. granted such incentives, care should be taken that the right sectors of the economy get the benefits. (This problem seems to have caused the West Germans some headaches.) Actually, it is difficult to be certain about the extent to which such selective tax measures could be applied in the U.S. Opposition to them could be quite strong on the ground that they were inequitable.

Desirable balance

If we wish to obtain a desirable balance between the needs of the public and the private sector, it may be necessary to increase public revenues by taxing less essential private expenditures. In West Germany there have been few complaints that the public sector has been neglected; rather the business community has complained that the public sector was too much favored and, in general, too large. Direct investments by public authorities have been very heavy and there is no sign that this sector is going to decline in importance. There is also no indication that the large public sector in West Germany retarded the country's growth.

Finally, to increase our exports,

we may well consider the package of West German measures—discounting of bills for exports at low rates, tax rebates on exports and tax exemptions on investments in export industries. Some of these measures may be distasteful. Others may provide useful hints.

There is a growing consensus that many of our present economic problems require selective treatment.

Such treatment was applied during the most crucial period of West Germany's economic growth. Further investigation of the selective measures employed by the government may throw some new light on the German "miracle"—which was, in fact, no miracle at all but the result of hard work, wise policy and a substantial amount of good luck. Moreover, such an investigation may

provide us with new insights. There can be no doubt that the West Germans were and are strong believers in a free market system. But they were quick to recognize that there are many situations in which the free market forces must be aided and guided in order to facilitate structural adjustments and to generate a satisfactory rate of economic growth. ■

Change within the AFL-CIO

The Old Guard in Retreat

by **TOM BROOKS**

■ THE AFL-CIO is now more than five years old. If, as the psychologists tell us, the "infant years" are the most formative, then we should already be able to determine much of the future character of the organization by examining the changes that have thus far taken place within it.

There were many fundamental differences in outlook between the American Federation of Labor and the Congress of Industrial Organizations that had to be reconciled before a constitution for the merged labor organization could be written. While both organizations were loose federations of autonomous unions, the CIO had, in fact, a far greater degree of centralized authority over its member unions than did the A. F. of L. Whereas in 1949 and 1950 the CIO was able to expel all Communist-dominated unions, the A. F. of L. would have found it difficult at that time to expel a union for any reason whatsoever—except possibly for nonpayment of dues.

Also, the CIO put much more emphasis on ideology in the fields of politics and social philosophy. In addition, the leaders of the CIO strongly discouraged such practices as the raiding of the membership of one union by another, racketeering and racial discrimination. The lead-

ers of the A. F. of L. may have frowned upon these practices, too, but they were hardly in a position to do anything about it.

An old-timer of the A. F. of L., George M. Harrison, President of the Railway Clerks, says, "I remember when, if you were to say something on the convention floor about another affiliate, the head of that union would get up and say, 'Look, you run your union and I'll run mine.' And, that was the end of that."

When the merger was effected, George Meany was President of the A. F. of L. As head of the Federation he, of course, favored the idea of centralizing authority within it. Therefore, he was more than willing to give in to CIO demands that the constitution for the new federation provide firm commitments on no-raiding, safeguards against racketeering and racial discrimination, and more authority and strength in the central organization. The new federation, like the A. F. of L., was subdivided into a number of departments. All the old CIO unions, plus some old A. F. of L. ones, formed the Industrial Union Department, headed by Walter Reuther. Today the IUD is the richest body within the AFL-CIO; it and the Building

and Construction Trades, and Metal Workers Departments are the three most important.

The issue that finally shattered the rock of autonomy on which the old A. F. of L. was founded was the problem of racketeering. According to Arthur Goldberg (now Secretary of Labor), who was the constitutional architect of the merger, compromises were worked out in the controversial area of no-raiding and discrimination. But, said Goldberg, the constitution, drawn up with racketeering in mind, did not compromise on the authority needed to cope with that problem.

The key constitutional provision is, of course, the one empowering the AFL-CIO executive council "to conduct an investigation, directly or through an appropriate standing or special committee appointed by the president, of any situation in which there is reason to believe that any affiliate is dominated, controlled or substantially influenced in the conduct of its affairs by any corrupt influence." The provision goes on to state that "the executive council shall have the authority to make recommendations or give directions to the affiliate involved and shall have the further authority, upon a two-thirds vote, to suspend any affiliate found guilty of a violation of this section."

Meany, in a sense, skillfully used the corruption issue as a tool to reshape the federation into his concept of what the labor movement ought to be. This is not to belittle his very real achievement in weeding out racketeers, but simply to note that among the results of the anticorruption drive have been the strengthening of Meany personally, the beef-

ing-up of the power of the office of AFL-CIO president and the concentration of more power in the executive council—more than even the CIO executive had under either Walter Reuther or the late Philip Murray.

Both inside and outside the labor movement Meany's prestige has risen as a result of his forceful actions to drive out corruption. If it hadn't been for this prestige, many observers believe that the Teamsters would still be affiliated with the AFL-CIO. Unlike Reuther or Murray, whose strength in the CIO came largely from their presidencies of the giant auto and steel unions, Meany's strength is based solely upon the powers and prestige of the office he holds in the federation. Meany, who is from the plumbers union, might have relied upon the support of the building trades. But to do so he would have had to be much more respectful of autonomy and to tread very lightly on the corruption issue.

The fact that Meany did not seek such support is a clear indication that the power of the building trades unions within the AFL-CIO is fading. Meany laid it on the line in an historic speech to the Building and Construction Trades Department at Atlantic City on December 3, 1957, just prior to the convention that expelled the Teamsters Union.

"I happen to be a building trades worker," said Meany. "My union was a closed union, closed in the fact that it did not take in new members [in the 1930s]. . . . When we had industrial work crop up that we felt we should do, we made an effort, if we had any weight or pressure, to get that work for our contractors. . . . We didn't want the people that were on the work. We merely wanted the work. So far as the people that were on the work were concerned, for our part they could drop dead."

Indifference and split

Meany didn't go so far as to say that the CIO was right when it split off from the A. F. of L. in the Thirties because of the Federation's indifference to the problem of organizing industrial workers. But he came close to doing so—far closer than any ex-A. F. of L. official is ever likely to do. "I'm not trying to assess

the blame. I am not trying to say what should have been done 30 years ago. I told you what my local union did. We wouldn't have any part of an industrial worker. We wouldn't take them in."

Although Meany, technically, was only telling the building trades that they were pushing their jurisdictional claims too far by claiming craft workers already organized by the in-



Labor Secretary Goldberg

dustrial unions, he was, in reality, signaling their end as an overwhelming power within the AFL-CIO.

What has replaced the great power of the building trades in the house of labor is still uncertain. A clue can be found by examining the course of union growth and expansion. By the mid-1930s the craft unions were moribund and the industrial unions (CIO affiliates) were growing in membership and vitality. Today the truly craft-oriented unions are small and self-contained—and are likely to remain so. Meanwhile, the giant industrial unions have reached the upper limit of their organizing potential. Both the auto and steel unions, for example, have some 97 per cent of their industries organized.

Actually, these giant unions face a decline as automation takes hold. The UAW, for example, once a union with 1.5 million members, scarcely musters an even million today and faces still further losses of membership. But unions that are no longer clearly craft nor industrial—the Teamsters, the Machinists, the Brotherhood of Electrical Workers, among others—gained members in recent years.

It has been said that the unions

have reached an over-all organizational plateau. Most of the industrial workers are already organized and there is a built-in resistance to unionization among most white-collar workers. As a result, it is probably true that the proportion of the total labor force which is organized will remain roughly the same for the foreseeable future. However, Everett Kassalow, Research Director of the Industrial Union Department, predicts that it will decline. (The latest figures bear him out. According to John Livingston, AFL-CIO Director of Organization, the percentage of the total work force organized has dropped from 40 to 38 per cent over recent months.)

The losses to organized labor through automation may be offset by gains in industries that are still largely unorganized, such as the chemical and oil industries. This will mean some shifts in the relative strength of the unions affiliated with the AFL-CIO; it is likely that those unions which have made recent gains in membership will continue to wax while the other wanes. And, I think, history shows that power within the house of labor comes to rest with those unions that are expanding.

This conviction is further strengthened by the observation that the backing Meany relies upon comes predominantly from the leaders of such unions—A. J. Hayes of the Machinists, James Suffridge of the Retail Clerks, George M. Harrison of the Railway Clerks (Harrison's union may not be expanding, but it is holding its own where all other railroad unions are losing out). Peter Schoemann of the Plumbers and David Dubinsky of the Ladies' Garment Workers reinforce this group.

One bolt of cloth

If you want to know what the AFL-CIO is like, what it is going to be and what stamp George Meany is going to leave on the organization, you must look to these men. Meany, Hayes, Harrison and Suffridge, in particular, are all cut from the same bolt of union-made cloth. They are not intellectuals—nor do they seek the company of intellectuals. Politically they are pragmatists; they have no ties to a radical past or to the old

Socialist movement. They are closer to the old building trades delegates than they are to the young men of the IUD. But—and this is important—they are moving away from the older position.

Meany is passionately dedicated to the clean-up of corruption beyond the wildest expectations of any IUD militant. "My God," one of these told me at the 1957 Auto Workers Convention, "if you had told me three years ago that George Meany was going to clean out the crooks, I'd have said, 'You're crazy.' Today I'd say, Meany is even going further than I would." Where the Meany group differs most from the CIO contingent is in approach. The CIO went into this field, in large measure, out of ideology and idealism. Meany, Harrison, Hayes and Co. are moving into it as pragmatists, driven by the conviction that corrupt unions cannot adequately serve their membership or further the cause of unionism.

Though Meany is over the hump as far as the corruption issue is concerned, he has other major obstacles to overcome in achieving unity among the members of the AFL-CIO. Among them are the jurisdictional squabbles between the Industrial Union Department and the building trades on the one hand, and between the IUD and the metal trades on the other. But machinery for solving these disputes is being set up and it's only a question of time before they will be resolved.

Taking the plunge

Significantly, Meany and the executive council may plunge deeper into the internal affairs of affiliated unions in dealing with these issues. Metal trades unions, for example, cooperate in organizing plants, with the understanding that each union will win a certain proportion of new members. If the federation steps into this area, it may mean the formulation of organizing codes. (The IUD has already framed such a code.)

In the case of the building trades the issue concerns the question of who gets craft work in industrial plants. One proposal calls for the assignment of new work to the building trades and of maintenance to the industrial unions. But before this issue is finally settled the federation



AFL-CIO President Meany

may set down new definitions of job jurisdiction, thus striking another blow against autonomy.

The need to solve the problem of jurisdiction is leading to an increase in the executive council's power. Indeed, such an increase has already resulted from the drive against racketeering. Many have pointed out that, in a way, expulsion is no solution; once outside the AFL-CIO an offending union, such as the Teamsters, can't be touched except through a vast expenditure of effort.

A logical extension of present AFL-CIO powers would enable the federation's executive council to suspend or expel officers in affiliated unions. In effect, this is what happens when the federation places a union on probation as it did in the case of the United Textile Workers and the Operating Engineers. A condition for remaining in the federation was that these unions oust certain of their officials. All that remains to be done is to alter the AFL-CIO's constitution so that the federation can act directly against delinquent union officials.

Indeed, Richard A. Lester, in his



UAW President Reuther

book, *As Unions Mature*, wonders if it will stop there. "Will the centralizing tendencies," he asks, "begin to jump the sharp dividing line between the national unions and the AFL-CIO not only with respect to the issue of ethical practices but also with respect to union wage policy, along the lines of developments in England, Sweden and other European countries?"

The answer indicated by trends within the federation seems to be, "yes." The unions, for example, may some day have to take a new position in regard to the possible inflationary effects of wage raises. This may involve some "code of collective bargaining," within which wage policy would be determined in relation to the over-all interest of the whole labor movement rather than in the interest of a narrow sector.

This centralizing of functions will reinforce still another tendency within the AFL-CIO—the push into broader fields of economic and social policy. Along with institutional security and respectability, says Lester, "interests broaden, focus widens and activities become generalized." This is already apparent in the formalized committee structure provided for in the AFL-CIO constitution—in sharp contrast to both the old A. F. of L. and CIO. Under the direction of the AFL-CIO president, a variety of standing committees are ready to function in outlining labor's position in relation to almost every aspect of public policy.

Internal crisis

The revelations of the McClellan Committee and the ouster of the Teamsters have created an internal crisis in the AFL-CIO—one that increases the need for ideology. By tossing out the truckers, Meany and the executive council have labeled some unions "good"—AFL-CIO affiliated, naturally—and others "bad." Here you have the beginning of ideology, howsoever simple.

The AFL-CIO is under considerable pressure to stress the difference between the Teamsters Union and the merged labor movement to the rank-and-file union member. No doubt, the AFL-CIO will stress the corruption issue in seeking to win the allegiance of honest Teamsters

—to encourage them either to clean up the trucking union or get out of it. The AFL-CIO can't outpromise the Teamsters at the collective bargaining table for, when all is said and done, Hoffa's union has done well by its membership in terms of wages, benefits and working conditions. But the AFL-CIO *can* try to instill into the members of the Teamsters Union a desire for something more—something called "good unionism."

But what constitutes good unionism? So far, "bad" unionism has been defined more by the McClellan Committee than by the labor movement although there are signs that this phase is coming to an end. The feeling among labor leaders is that the McClellan Committee stared down only one side of the collective bargaining table. "Where you have a crook on one side representing labor," says Meany, "you have a crook on the other side representing business." There will be more demands that Congressional investigators start looking down the other side of the table in the future.

The real difference between what the McClellan Committee and what Meany and other union men see as "good" unions came up in the Kohler hearings. The Committee saw only wrongdoing in the violence on the Kohler picket line. But trade

unionists, while they deplore violence, in the words of one labor intellectual, "understand the context in which it occurs." Here, then, is another difference that will in time force the unions, and Meany as their chief spokesman, to define more clearly what is meant by "decent, honest trade unions."

Meany, then, has brought the merged labor movement to the threshold of ideology. Whether or not he himself carries the AFL-CIO across to a new socially conscious unionism is almost beside the point. The important thing is that Meany in five short years has laid down the prerequisites for the development of a new unionism in America. But how far will the AFL-CIO go? The answer probably will depend on two factors outside the control of the unions—the state of the American economy over the next few years and what resistance employers will put up to new union demands.

Straw in the wind

In the last analysis, it is the employers' actions that will determine labor's social philosophy and political actions. Since, on the whole, industry has refused to consider seriously union demands for broadened health coverage along the lines of the health plan worked out by John L. Lewis' coal miners, there has

been a revival of serious labor interest in legislation for a comprehensive health program. The fact that labor is supporting health care for the aged on a social security basis is just one straw in the wind. Again, if industry turns down all collective bargaining approaches to the shorter workweek, the unions will seek Congressional action.

This has been the pattern in the past. When, as in recent years, great social gains—such as pensions and supplementary unemployment benefits—are made through collective bargaining, the unions show little real interest in making similar gains through social legislation. But when they run up against strong employer resistance—as they did in the 1930s—then the unions seek legislative relief.

Recently, Meany has begun to talk straight from the shoulder about the need for broad social reforms. Certainly, the AFL-CIO is now far to the left of the Kennedy Administration in this area. Thus, we can foresee that the trend Meany has set in motion will lead to the development of a new unionism in the United States. This new labor ideology is likely to be a synthesis of the pragmatic market unionism of the old A. F. of L. and a social consciousness which is a realistic adjustment to changing times. ■

The postwar business cycle

ANATOMY OF FOUR RECESSIONS

by **LEONARD S. SILK**

■ MANY OF US are in the habit of thinking of recessions as separate, discrete events—strung out on a time chart like sausages on a string. Indeed, the first two postwar dips (1948-49 and 1953-54) did have this neat, discrete, regular appearance. But not so the 1957-58 and 1960-61 recessions. These not only appeared

close together in time, but actually were interdependent in nature.

It may be that we should think of the entire period extending from the early part of 1957 to the early part of 1961 as a period of quasi-depression, the modern (and, happily, much less severe) equivalent of the depression of the 1930s, during

which we had several up and down oscillations of the business curve, but during which we never eliminated substantial unemployment. For the recovery following the 1957-58 decline never restored the economy to anything resembling full employment. In May, 1960, when the recovery topped out, unemploy-

ment was still at 5.1 per cent of the civilian labor force.

Despite the mildness of the following recession, unemployment mounted to 6.8 per cent in February, 1961, and hovered around 6.9 per cent in March, April and May, when recovery was getting under way. This period of relatively high unemployment and slow growth has spelled—as did the violent contraction of the 1930s—the end of a postwar era.

The post-World War II era, which I think ended in 1957, was a period of rapid and inflationary expansion. There was an enormous job of reconstruction to be done in war-damaged countries and, almost alone, the United States was in a position to provide the goods that were in such short supply elsewhere.

We ourselves had plenty of backlogs to make up—backlogs that had accumulated not just in the war period but during the long depression. When the war ended and the troops were demobilized, the marriage rate boomed—and so did the birth rate. We rapidly became a nation of home-owning, middle-class suburbanites, determined to equip ourselves quickly with autos, washing machines, refrigerators, television sets, bathinettes and all the other paraphernalia of the good family life.

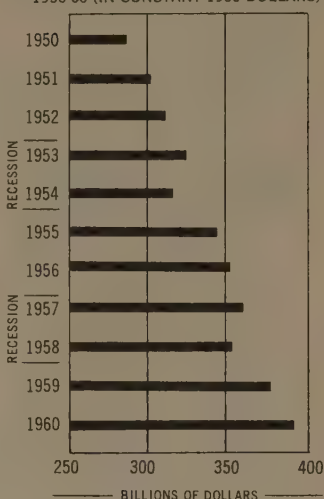
And the means of paying for this vast social transformation were available. People were eager to spend money they had saved during the war. Many scientific discoveries and technological innovations in chemistry, aviation, electronics, atomic energy, pharmaceuticals and other areas had been made during the war. The heavy demand, coupled with technical progress, sparked a tremendous expansion in American industry. And that expansion, based on continuing research, has by no means spent itself.

New environment

Nevertheless, in the new environment of slower growth that has succeeded the swift pace of the postwar period, business has come to recognize that technological progress and population growth can be sources of disturbance as well as advance to an economy.

Some of the evidences of disturb-

GROSS NATIONAL PRODUCT 1950-60 (IN CONSTANT 1950 DOLLARS)



ance showed up clearly in the 1960-61 recession. Industry discovered that it could get by on much smaller inventories. In part this resulted from new technology, especially computers and inventory programming. In part it was due to more ample supplies and capacity; this made it possible for retailers and wholesalers to force inventories back on manufacturers, who could carry smaller inventories in the aggregate. Expensive credit, squeezed profit margins and a lack of inflationary expectations also played a role in cutting down inventories.

The U.S. population is still growing rather rapidly—by about 1.7 per cent, or three million people, per year. But businessmen have begun to understand that this fact is not automatically bullish in its implications. For the American population is growing fastest at the bottom and top of the age distribution; that is, the numbers of children and old people are increasing faster than the ranks between them. This puts heavy demands on wage and salary earners and squeezes the income that is available for purchase of durable goods.

Further, because of the small baby crops of the depression years, the household formation rate is now lower than it was in the early postwar years. This hurts the demand for housing and other household

goods. During the 1960-61 recession, despite governmental efforts to stimulate housing construction as a countercyclical force, this activity continued to decline. Similarly, consumers have shown a diminished appetite for durable goods, such as autos and appliances, despite the firmness with which aggregate personal income has held up.

The nation has come to see that, in a slowly growing economy, technological change may result in both idle plant capacity and surplus workers; superior techniques and knowledge can substitute for both labor and capital. Obviously, if demand were strong enough, the new labor-saving and capital-saving technology would make possible big surges in output. But demand has been flagging after its rapid growth during the earlier postwar years.

At the same time, it appears that the U.S. tax system—which was inadequate to restrain inflation during the period when domestic and world demand for American goods was booming—may impose too heavy a burden on today's economy. On the way back uphill from a recession, the swing from budget deficit to surplus apparently throttles the growth of demand too soon, and the recovery aborts.

Tax burdens

Of course, one should not generalize just from the 1959-60 experience by suggesting that this is a chronic ailment of our economy. However, if the tax system is too burdensome to permit the economy to reach full employment during business expansions, and to permit those expansions to have a respectably prolonged life, then the tax burdens should be reduced.

For it is by now clear that the U.S. needs a more rapid rate of growth in aggregate demand in order to maintain a high level of employment, to make full use of its industrial capacity and to absorb the new technology which research is creating. Obviously, if all Americans enjoyed a high standard of living, and if the U.S. government did not have increasing responsibilities at home and abroad, economic expansion would be unnecessary. Growth merely for the sake of growth would be foolish; more lei-

sure might be preferable to more work. But I cannot believe that the majority of our people are already so well-to-do or that we are so strong as a nation that we can or should settle for slow growth and more leisure—voluntary or involuntary (involuntary leisure being a euphemism for unemployment).

It is generally agreed that we are pulling out of the 1960-61 recession. This downturn began in May, 1960, according to the National Bureau of Economic Research, whose choice of turning points in business cycles most economists accept as definitive. The National Bureau has not yet picked a terminal date for the 1960-61 recession, but it appears probable that the recession ended in February, 1961. In that month the Federal Reserve Board's index of industrial production touched bottom at 101.9 (1957=100), after sliding down from 109.8 in the preceding May. In March the FRB index moved up to 102.4; in April it took a more decisive jump to 105; by May it had climbed to 108.

While it is theoretically possible that the economy may yet suffer a relapse, this is not very probable. We may with almost complete certainty regard the 1960-61 recession as a part of history and compare it with the preceding three postwar recessions for the analytical and policy lessons that may be learned.

Each of the postwar recessions represents a different recession "model." It is perhaps possible to divide recessions into three broad types: (1) inventory recessions, resulting from miscalculations by

business in building up excessive stocks of goods; (2) capital goods recessions, caused by the exhaustion of a wave of expansion in producers' equipment and construction; and (3) recessions caused by government—through cutbacks in expenditures, increases in taxes or excessive tightening of money. Obviously, any given recession may represent a mixture, in different proportions, of some or all of these elements.

The 1948-49 recession was essentially an inventory recession, brought on by the cessation of postwar stockpiling. To be sure, spending on new plant and equipment was reduced somewhat as the recession took hold. But the major cause of the decline in gross national product was the \$10 billion swing in inventories—that is, from a \$5 billion rate of inventory *building* to a \$5 billion rate of inventory *cutting*.

Tremendous backlog

However, housing construction held steady during the first few months of the 1948-49 decline, and then climbed spectacularly. By the time the recession had played itself out, the rate of housing starts was 50 per cent higher than at the peak of the preceding boom. Retail sales also climbed throughout the 1948-49 recession. Obviously, the tremendous backlog of consumer demand for housing and other goods helped to keep the first postwar slump brief and moderate. Recovery was well under way before the outbreak of the Korean war swept the economy into a boom.

The 1953-54 recession was caused

primarily by the heavy cutback in federal expenditures after the Korean war. With the end of hostilities government spending on goods and services dropped more than \$10 billion. This slash in government outlays also brought on some inventory cutting—though the 1953-54 drop in inventories was the most moderate of the four postwar recessions. As in the first postwar recession, housing construction held firm during the early months of the 1953-54 recession and began to rise impressively (though less sensationally than in 1948-49) well before the recession was over.

Business spending on new plant and equipment actually moved upward during the first six months of the 1953-54 recession, and thereafter declined only moderately until early 1955, when the great capital spending boom of 1955-57 began. Outlays for plant and equipment climbed from \$26 billion in 1954 to \$37 billion in 1957.

But by early 1957 it was apparent that the rise in capital spending had overshot the mark. For consumer income and purchasing had been rising more slowly than capital spending by business and the growth of industrial capacity. This made further growth in capital stock unprofitable and created a profit squeeze. Thus, the stage was set for the 1957-58 recession, the sharpest of the postwar period.

The 1957-58 "capital spending" recession, however, was first delayed and then abruptly induced by political events. In early 1957, when the expansion had pretty much run its course, the economy was bolstered by a very rapid rise in government defense outlays. There was a further boost when the Suez crisis provided a special lift for exports. Then, in late 1957, when new orders for capital goods were falling sharply and capital goods production was just starting to drop, the government belatedly began putting its fiscal house in order, pressed by the necessity of staying under the national debt limit.

The government adopted measures of unprecedented strictness to forbid new expenditures in various civilian fields, canceled or stretched out many defense contracts, and deferred payments on others. Defense

POSTWAR RECESSIONS—SOME COMPARISONS

MEASURED BY the depth and duration of the decline in over-all economic activity, the 1960-61 recession was the mildest of the postwar slumps. Gross national product, stated in current prices, fell only 1.1 per cent from the second quarter of 1960 (\$505 billion) to the first quarter of 1961 (\$499.5 billion). But since prices rose 1.1 per cent during that period, the decline in real GNP was 2.2 per cent. (In 1948-49, real GNP fell 2.5 per cent; in 1953-54, four per cent; and in 1957-58, five per cent.)

According to a formula for determining the turns of the business cycle, devised by the National Bureau of Economic Research, the 1960-61 recession has been one of the two shortest of the postwar era. Assuming that the 1960-61 recession ended in February, we may consider that it lasted just nine months—or exactly as long as the 1957-58 recession. (The 1948-49 recession lasted 11 months, while the 1953-54 downturn continued for 13 months.)

contractors, strapped for funds, were hard pressed to get the loans they now needed—for the Federal Reserve, in an effort to check inflation, tightly restricted the banking system. The defense contractors became so uncertain of government intentions that they began to cut their programs, unload inventory, prune payrolls and reduce plant and equipment spending. This squeeze on defense orders and spending produced, in 1957, the kind of panic that has broken out from time to time in Wall Street to write *finis* to past booms. The country felt the chill of a crisis of confidence. The 1958 auto models—billed as the saviors of 1957's fourth quarter—flopped, and the recession was on for fair.

Business firms began to slash inventories and also to cut further their spending on plant and equipment. Capital spending was cut by over \$7 billion (more than 20 per cent), and inventory investment fell by over \$8 billion. Housing construction did not remain quite so firm as it had in the preceding drops; there was a 10 per cent slide in housing starts during the first six months of the recession. Thereafter, though housing rallied in response to liberal housing credit policies, it responded more sluggishly than in 1948-49 or 1953-54. Consumer buying also fell off more than it had in the preceding downturns and recovered more slowly.

Short-lived

Despite the fact that the 1957-58 recession began with a sharp drop, it was remarkably short-lived. Business had completed most of its inventory cutting within six months after the recession began; after that, inventories were cut back more slowly. This helped to halt the decline, and the economy began to move upward in the second half of 1958. In 1959 anticipation of the coming steel strike generated a fresh burst of inventory accumulation and gave a somewhat misleading glow of health to the economy. Actually, the long steel strike produced a kind of recession of its own; GNP actually dipped slightly in the second half of 1959 and industrial production fell sharply. Inventories declined during the strike, but apparently much less than many businessmen

assumed. In the third quarter of 1959 nonfarm inventories fell by only \$500 million.

With the end of the steel strike, this quasi-recession turned into quasi-boom. But by February, 1960, only a few months after the steel strike, it was already clear that the brief boom was fading. The stock market went into a slump, apparently in anticipation of a coming recession. Most businessmen and politicians, however, refused to concede that the economy was again in trouble so soon after the 1957-58 recession. The fact that 1960 was an election year added more confusion to the debate over whether or not a new recession existed. Republicans, seeking to stay in office, sought to minimize the deficiencies of the economy; and Democrats, wary of the charge of being the party of doom-and-gloom, refused to fire until they saw "the white of the recession's eye," as Prof. Paul A. Samuelson of M. I. T. put it.

This period of doubt and uncertainty ended abruptly after the November election—although, as I have mentioned above, the National Bureau finally fixed the preceding May as the onset of the recession.

The 1960-61 downturn was essentially a "slow growth recession," just as the 1948-49 recession was an almost pure "inventory recession," the 1953-54 one the "post-Korean recession" and the 1957-58 dip a "capital goods recession." Admittedly, however, as Arthur F. Burns, Eisenhower's first Chairman of the Council of Economic Advisers, has argued, the 1960-61 recession was brought on by three more specific developments:

- The violent shift in federal finances. From the first quarter of 1959 to the second quarter of 1960, the federal budget swung from an annual rate of deficit of \$17 billion to an annual rate of surplus of \$7 billion, a shift of \$24 billion. This put the economy under powerful contractive pressure.

- Excessively restrictive monetary policies by the Federal Reserve. By mid-1959 the Fed had stopped the growth of the money supply and raised interest rates. Demand deposits shrank by nearly \$4 billion between July, 1959 and May, 1960, and long-term interest rates rose faster than during a comparable

period of any business cycle during the past 100 years.

- The protracted steel strike in the second half of 1959. The strike caused confusion in the business community and also in governmental circles, preventing early recognition of the magnitude of the restraints on economic expansion that were being imposed by the government. When the strike ended, business corporations soon found themselves short of funds with which to carry inventories—and long on the managerial skill required to make the most of smaller inventories. Consequently, business swung to inventory cutting and the fourth postwar recession was on.

Judging our postwar cyclical record is a little like the doughnut evaluation problem: Do you look at the doughnut or the hole? From the more cheerful perspective of the present cyclical recovery, we may boldly congratulate ourselves on having kept our recessions so moderate and brief. The primary reason for this reassuring record, I think, has been the power of the automatic stabilizers, such as unemployment benefits and social security payments, to sustain income at a high level while the recessions in inventories or capital spending worked themselves out. This happened despite the sometimes mistaken implementation of countercyclical policies by the government and the Federal Reserve.

If, however, we consider the hole in the doughnut, we must worry about the *next* recession, about the persistence of unemployment in our system and about the constraints put on the economy by government efforts to hold down inflation and attack our balance of payments problem. These constraints have arrested the forward course of our economy during periods of business expansion, thus slowing down the long-term growth rate.

We cannot be satisfied with our present slow rate of growth when we consider the magnitude of our responsibilities both at home and abroad. We can and must do better —by reducing the drags in our fiscal system, by strengthening the economy's built-in stabilizers and by making our entire system more flexible, mobile and competitive. ■

DAVID J. SECUNDA

Vice President, American Management Association



The World of Management

Q *Mr. Secunda, the American Management Association has been in existence for 38 years. For the benefit of those of us who may not be familiar with your activities, could you tell us briefly what AMA does?*

A There are many ways to answer that question, but I believe that AMA is a place and a method whereby sophisticated business managers engage in educating each other. We use all the different forms of modern media for the communication of knowledge. This knowledge must have some effect upon the thoughts of practical men. After all, we can only affect their actions by working on their thoughts.

Q *What level of management do you work with?*

A The level varies all the way from presidents and board chairmen down to junior executives who some day will become presidents and chairmen. We concentrate on those who have had experience, so as to pass on their knowledge to those who have had less or different experiences. Now, for the experienced executives, we provide a way to search for new ideas. When we bring this kind of a prescreened group together, we can share experiences, develop a common terminology and a common recognition of the problems confronting American management today.

Q *You used the word "practical" to describe the kind of business managers who use the services of AMA. Does this mean that AMA is interested in practical management problems only, as distinct from policy problems?*

A Policy is a very practical word. My reference to the word practical should be taken to mean all that relates to the business job, function or problem. True, we are not immediately concerned in our program with what should be done in Laos, Cambodia or Brazil. We are interested in the education of managers, and we use the word "practical" as it might be applied to the task of running a business enterprise today or tomorrow.

Q *But business doesn't operate in a vacuum. Aren't there many nonbusiness forces that must be considered?*

A Of course, we recognize that business lives in an environment. So, in our educational pattern, at a

predetermined time and place schedule, AMA does its part to acquaint the manager with the environment in which he operates. The business manager is influenced by what government is thinking and doing, by what is happening in international business affairs, sociological trends, and the like. But with each one of these elements that make up the environment in which business must operate, some very practical problems come to the fore. These problems must be met by the businessman exercising responsibilities for his company but with a sense of being a part of the business community. An awakening to the subtle influences of all these forces brings a man closer to becoming a well-rounded manager.

Q *Would you say that a manager is something more than a specialist or technician?*

A Let me answer that in this fashion. There are some people whose actions are influenced entirely by circumstances. The manager, on the other hand, is in control of circumstances. He causes things to happen. Of course, he makes things happen through people. The managers I refer to manage both things and people. Now, the technicians you refer to also have things and people to contend with. If a technician recognizes both, he is an applicant for the title of manager. If he is only a doer and tends to exclude the problems of people, he may always be a technician.

Q *In what specific ways is the business manager of today different from the manager who first availed himself of the services of AMA 38 years ago?*

A It is plain to see that a different kind of man is coming to the American Management Association. You don't have to go as far back as 38 years. Right after the war there was an upsurge in the educational and training wants of businessmen, and management education had systems to match this upsurge. I think the aftermath of the war had a lot to do with this—the shortage of men, the enormous task of rebuilding, the sudden recognition of the need for organizational talent. In the old days business managers were trying to define the meaning of words like planning and organizing and appraising. How do you go about planning a task or organizing your work? How do you know when a job

DAVID J. SECUNDA

is well done? Before the war the great body of business managers were engaged in trying to find answers to such fundamental questions.

Q *How is it different today?*

A Well, even the questions are different today. They already are planning their work, they are organizing, they are controlling and they are appraising. The people who work for these managers have become part of a different business environment. When they come to the American Management Association they are interested in such things as changing the shape of the corporation itself—making it grow faster internally through development of new products, or externally by acquiring or merging with somebody else's product and thinking. The manager knows how to plan and how to organize. If he runs into a specific problem, such as the scarcity of other men who know how to manage, he says, "I want to know about different compensation systems—unusual incentive systems that will attract unusual men." You can see how the level of sophistication has risen. He no longer merely says, "I am interested in the free enterprise system." He is now trying to make the most of the system by applying the latest techniques and the widest range of knowledge available.

Rapidly changing environment

Q *How is the formal education of today's business manager different from that of a manager of 30 years ago?*

A Today's manager is more aware of his rapidly changing environment. Fast technological progress, the compression of time, and so on, have made it impractical for a manager to depend on the education he got during the first 20 years of his life. A man just can't keep up with progress if he doesn't make an effort to get re-educated.

Q *What is the typical educational background of today's manager? Must he have a graduate business school degree, an engineering degree or formal schooling in marketing?*

A Liberal arts is holding its own these days. We came through the age of the engineer, and maybe we would have stayed there if engineering itself didn't become a splintered discipline. But it broke down into the rocket man, the fuel man, the communications expert. Today, business wants to recruit the thinking generalist as well as the specialist.

Q *You mean that many of the business managers of the future are being recruited from the liberal arts colleges?*

A Yes. A greater percentage of liberal arts men is being picked up and probably will continue to be picked up as long as the universities don't try to train a man to be primarily a businessman. The university is a place where a man should develop the art of learning to read, to write, to communicate, to think, to look at the world of ideas and to explore all kinds of thoughts. Business can't educate a man to do these things as well. It can, however, train the man to perform tasks.

Q *Why should the more rounded individual be sought for business leadership? This must be in response to some kind of new development.*

A Well, let us say that in recent years business has become aware of something new in the air. We in America enjoy a smaller advantage vis-à-vis the rest of the world. At one time we had the advantage of better plants and production methods. Postwar developments have changed that. We always had an edge on know-how. The Germans and Japanese have demonstrated that this is no longer a major edge. Their quality control is good. And their research is good. Where is our advantage today? What is it going to be five years from now? If it is not in equipment, if it is not in technical know-how and if it is not in the availability of capital, what then is the difference between (A) the company which makes good and (B) the company which doesn't? You can only boil it down to one thing—management. The coordination, organization and the efficient utilization of the latest production and distribution techniques—these are the pressing tasks before management today.

Q *Efficiency has always been a big word in management. What does modern management think of when it thinks of increasing efficiency?*

A The first thing it thinks of is increasing its own efficiency.

No escape from automation

Q *What about automation?*

A That raises an interesting thought. You know, looking back, bad management probably created the labor union. In turn, the bad union is contributing to automation. And we are going through an age, I submit, of automation working against certain labor union practices just as the labor unions worked against certain bad management practices. But I don't think there is any escape from automation. It's got to come.

Q *Is it part of modern management's philosophical speculation to think about the impact of automation on the national scene as well as its impact on the efficiency of a particular business?*

A Of course, yes. After all, no business or management is going to survive if the impact on the national community is one of disruption. I was merely speaking of one of the forces on the American scene that is bringing about the dynamic change known as automation. And whenever there is a change like automation, there is bound to be some resistance to it, which is all right in itself so long as such resistance does not threaten to change the American system. There is a tendency to fight automation because some people get hurt when certain inefficiencies are eliminated. And when there is an appeal to government control, the American economic system could suffer seriously from the efforts of government to respond to such appeals. The question then becomes one of whether we want more central planning, as distinct from the decentralized planning that has traditionally made our economy tick.

Q *Does the practical-minded manager think about the role of business in our type of society?*

A Oh, yes. I've seen groups of presidents year after year talk for extended periods of time about this subject. What is the purpose of business? The mere fact that presidents seriously discuss this type of thing is indicative of the type of probing mind that is at work in our business community. When you ask yourself what is the purpose of business, you are really asking what is your purpose in business.

Q *An immediate reaction to that might be that you are in business to make money.*

A Sure, that's true in some cases. But suppose someone comes back and says you already have a lot of money. What's the point of being in business? It wouldn't take much of this type of discussion to recognize that the reason for being in business goes beyond the obvious one of merely making money. You want to see something worthwhile work. You want to offer something that people want and need.

The many sides of "profit"

Q *Would you say that the profit motive becomes somewhat diffused?*

A It cannot be overlooked, but the other motives should not be excluded. We have presidential round tables every year where presidents get together, 30 in a group, and talk about their problems. Never have I heard them come up with the conclusion that the prime purpose and objective of business is to make money. But keep in mind that no purpose, no objective can be achieved unless there is a profit, and no manager is ashamed of profit. Profit is the difference between energy expended and energy produced. Profit is the thing that savings are made of. It is the thing that capital consists of.

Q *It is fashionable these days to talk about the tasks confronting American society today. How does American management interpret these so-called tasks? How does the business community see the challenge of the next 20 years?*

A The business community is a little apprehensive about the ability of Americans to maintain their standard of living. And they are worried about the greater ability of people abroad to compete, even while we at home keep extending ourselves in the business of external welfare. By that I mean we keep taking the fruits of American labor and sending it abroad, which means you don't share it among the community at home. In the past we were fortunate in that the difference was always so great and the surplus so large that we never felt the impact of a little self-denial. But that situation has changed and you might say is now working against us.

Q *Do businessmen feel that foreign aid is a waste?*

A It is difficult to call it a waste. There is a good thought behind it: to help other people to pull themselves up, to increase their standards of living. Who could argue with that objective? But times change. Needs change. And our capability to continue with long-term foreign aid changes. The domestic scene is

in need of certain forms of aid also. The businessman has a moral obligation to ask himself some questions about where and how far we can go with foreign assistance programs.

Q *What about increased business investments abroad?*

A Some people refer to that as exporting American jobs. Of course, during the first postwar decade American business was encouraged to invest overseas. The idea was to help friends and allies to increase their productive capacities. The business community was aware of the possibility that this might cut into American jobs. American management worried about this. But we wanted Europe back on her feet.

Q *What types of choices confront a businessman when he considers putting up a plant abroad, for example?*

A Well, I remember one president saying that it would be cheaper for him to make his product overseas and bring it over here—cheaper than to make it here in the first place. I guess he worried six months about whether he should do it or not. His responsibility to his stockholders clearly indicated that he should open a foreign branch because the profits would be greater. But he had a responsibility to the people employed in his domestic plants as well. A man involved in that kind of a dilemma is not a hard taskmaster, you know. He was looking for a way out—an answer that wouldn't hurt anybody.

Q *Isn't there another dimension to this problem? Don't we have to consider that if we don't help bolster other economies, someone else will?*

A I know what you have in mind, but let us leave out the business of Soviet competition for the time being. There is another dimension to the idea of someone else moving in. Let us say that a businessman has a choice between making his product in the United States and making it in Germany, where costs are lower. If he decides not to make it in Germany, somebody else will. Then our businessman will no longer be able to make it in the United States either.

Foreign aid and the economic bone

Q *What about the problem of underdeveloped areas? If we don't give technical and economic assistance to these areas, perhaps the Soviets will. Do we really have a choice?*

A If we have difficulty affording such aid, won't the Soviets have the same difficulty?

Q *That is possible. Perhaps they are more willing than we to live with the strain on their economy, more willing to drive their people for the sake of winning friends and influencing people.*

A The Russians are living closer to the bone than we are. Perhaps we are not very good strategists. Maybe we ought to let them dig into the economic bone a little.

Q *Mr. Secunda, could we return to a point you made earlier? You said that one of the things that American management is apprehensive about today is the in-*

creased competition from abroad. Aren't you suggesting that if other peoples' standards of living go up, this deprives us of opportunities to increase our own standard of living?

A I think you are reading more in my comment than I intended. After all, any new business development on the domestic or international scene is bound to suggest a problem for a manager. It is the business of a manager to consider all possibilities and find the solution for every possible problem.

Q *You also said that American management is worried about whether our society can maintain a steady increase in standards of living. What specifically in this area is management worried about?*

A I think you will find that business managers are thinking very hard about the problems of motivation—motivation for a corporation, motivation for management, motivation for stockholders. Why should a man go into business for himself? Why should a corporation expand? Why should a stockholder invest?

Q *What are the motivations that make management run?*

A People have been asking for ages, what makes Sammy run. We know we've been running pretty well in this country under certain patterns. A man works because he wants to achieve a sense of accomplishment. He has to know that what he is doing is worthwhile and that it will at least take care of the economic needs of his little group, his family. He wants to be able to concentrate on the job before him, to know that it is a good job and that some rewards of an economic nature will be spread around because of what he is doing. That is what makes him run. That is what makes him tick.

Business pressures and the economic atmosphere

Q *Would you say that the pressures on the business community today are such that the economic atmosphere is not as salubrious as business managers would like it to be?*

A There seems to be a desire these days to prove that business managers are an offensive breed of men. You hear a lot of talk of business ethics. Managing a business is a full-time job requiring the undivided attention of the best brains available. Why should managers have to spend so much of their energy trying to prove that they are not offensive? Why the attack on business ethics? Perhaps it is because corporations do not vote. The American Management Association sees thousands of business executives a year. If anything, their ethics, their objectives and principles can no more be subject to question than those of any other single group. But read your daily newspapers. All of management seems to be on trial because a few members of the industrial community broke a law.

Q *Do you feel that business management got a more unpopular press than some other group might have*

got under similar circumstances? I refer to the so-called price-fixing scandals of a few months ago.

A Considering the undeniable contributions that management has made to national strength, security, and standards of health and everyday well-being, the attack was all too general, and in my opinion unwarranted. All bankers are not embezzlers, all soldiers cowards, all children delinquent—does this make my point?

"Much like the guy next door"

Q *There must be something wrong with the image that the public has of the businessman, wouldn't you say?*

A The image isn't clear at all. Managers have been so busy doing the job that they haven't had time to let people know what they have been doing. How often do you get a look at a manager, a corporate president? How often do you see or hear him in action? Virtually all managers are too busy producing the goods, answering wants and needs, providing talented men for community or government service. We at the American Management Association see managers mostly as they really are. I often wish we could put some of these business people on television so the public could see them in action. There would be no staging, no scripts necessary. If such a telecast could be made, the public would see at first hand the range of difficult decisions that a manager has to make every day. But aside from his professional competence, the public would see that a business manager is pretty much like the guy next door. He worries about the same things that you and I worry about. To be sure, he has human frailties, but he has to have a lot of exceptional strength and character as well in order to do a good job for his benefit and for the benefit of a lot of other people.

Q *Mr. Secunda, it has been said that every time there is a serious recession, like the one we just passed through, the business community is put on trial. Does the business manager have an answer when someone asks him: "What can an individual businessman do to get things moving again?"*

A I think he has a lot of answers, if he is asked the question. The last time we were in a recession, we of AMA brought together 2,600 businessmen, presidents and vice presidents, leaders of industry. We also had leaders of government present at the same conference. The business people said: "It is our job to lick this recession." The government people said: "Go ahead and do it." There was an air of confidence which visibly touched many of the presidents present. Many a business leader left that meeting, went back to his business and took a second look at his business budget. Previously approved slashes were rescinded. Businessmen were asked to do a job, so they did it.

Q *Are you suggesting that what is needed is some coordination between national needs and the efforts of individual businessmen?*

A Something like that. Managers still respond if someone will lay the task before them. What do you want us to do? What will you permit us to do? Can we talk

about it? There must be a business-government relationship built on mutual confidence. Business cannot work in isolation. And business management is not an organized group, references to the U.S. Chamber and the NAM notwithstanding. Far from it. Management is made up of individuals, and this is the strength of management. But decentralized thinking can serve a common objective.

Q *Do you mean that we lack the institutions that can make a working team out of government and business managers?*

A Yes, we lack such institutions, and there isn't enough exchange of information. It is difficult to discuss common problems and objectives. Where can you get together? Businessmen are afraid to have breakfast together these days. Where is government getting together with the businessman? Where is that definition of the common task?

Q *Does this involve a redefinition of the workings of free enterprise?*

A No, I don't think so. There is somewhat less encouragement today for those who want to be enterprising. Enterprise isn't as free as it used to be. But the business community is no less confident that it is possible in this system of ours, through decentralized thought and action, to work toward a common goal. Disciplined thinking is part of the stock in trade of the good business manager. That is why I say it is important to define the tasks confronting our society. What should we be thinking about? The businessman doesn't want to dodge his responsibility. He wants a chance to know what is expected of him. He doesn't want any broad brush statements to the effect that the nation should be vibrant or that the economy should be growing faster. He wants to get at the specifics so that he will know what must be done. Is it a case of too many people out of work? What specifically are we going to do about that problem? There are solutions, as there were in 1957-58. There were jobs that needed to be done then and there are jobs that need doing today. We can use a lot more of everything that you can think of.

Lack of proper motivation

Q *What is keeping us from filling those jobs and producing the things that we need?*

A There is a lack of proper motivation. The task hasn't been defined in such a way that the individual business manager can do something about it. The businessman is therefore left out on a limb, and he has to be concerned about his prime responsibility—the well-being of his own corporation. Since there is no common approach to our economic problems, no one businessman feels that he can buck a recession alone.

Q *Whose job is it to define the common task?*

A I think the defining has to be done by industry and government working and thinking together.

Q *And you feel that there is no working body in ex-*

istence that can bring together the various economic elements and come up with practical solutions?

A We are lacking the media, the form of communication, the attitudes that bring people to work together as a group and harder as individuals.

Q *Are you looking for planning of a sort?*

A I prefer to think of it as economic mobilization. Taking people who are out of work and making them productive. How do we put people to work doing things that are worthwhile? We won't find practical solutions to this problem by looking at outdated unemployment statistics, but by motivating individual businessmen to make the statistics that spell prosperity and progress. These kinds of statistics just don't happen. The businessman can and does make them happen by taking specific practical steps when such steps promise financial and nonfinancial rewards to himself and the corporate community of stockholders he represents. But he has to know rewards are possible, and he has to be allowed to get the job done.

Leadership must come from the White House

Q *Obviously, someone has to take the initiative to break down the wall that apparently exists between national economic objectives and the capability of individual business decisions to fulfill those objectives. Who, in your opinion, should take the initiative?*

A The leadership, the initiative, has to come out of the national headquarters for now. It has to come out of the White House with the help of leading businessmen.

Q *Would this be a healthy development for our kind of society?*

A The White House cannot do industry's job. But I don't see any harm in defining the economic tasks before us and setting a climate in which business actions will flourish.

Q *Do you feel that the business community is not adequately represented at national headquarters?*

A All I am saying is that the problem of working together, as I defined it, is not adequately recognized at present. As for business representation in our national government, I don't think business needs special representation. We have a government, and that is that. Business doesn't need to be represented as a unique force. Nor should it be tolerated as something to have around to take a whack at every once in a while. It is the job of business to be constructive. If there is an economic problem, I would say that the White House should take the initiative to call in the people to help define what the problem is. What can be done about it? The business manager will then go home and get to work on the practical steps to alleviate the problem. That is the way a business manager likes to work.

Q *Thank you, Mr. Secunda.*

FEWER BANKS, MORE COMPETITION?

by ALBERT L. KRAUS

■ ROBERT F. KENNEDY'S prompt action to check the tide of bank merger applications that greeted his appointment as Attorney General raises questions. Why the recent wave of bank mergers? How does competition in banking differ from competition in unregulated industries?

Before the new Attorney General could hang up his hat in his new office, he was confronted with proposed bank mergers in Philadelphia, Chicago and Boston. In New York, after the first of the year, three new merger or holding company applications were added to the one previously pending.

With a single exception, the New York moves resulted directly from the passage last year at Albany of the Omnibus Banking Law. This enabled New York City banks for the first time to merge with banks in Westchester County and Nassau County, Long Island or to open branches there. It also bestowed the Legislature's blessing on statewide bank holding companies. For three previous years, the organization of new holding companies and the expansion of existing ones had been frozen by the Legislature.

Passage of the Omnibus Law, however, was only a symptom. For more than a decade the New York City banks had sought legislative permission to follow their customers to the suburbs. It wasn't that the city was losing population, although some of its older areas were. Rather, it was the fact that the big growth of the metropolitan area, especially of neighborhoods with a heavy concentration of higher-income families, was occurring outside the city's borders while the banks remained locked into the five boroughs.

To the New York City banks, the

opening of Westchester and Nassau Counties suggested merger primarily rather than the opening of branches. For the areas were well supplied with banks, and the development of new branches would take time.

The big city banks might not have been so eager to get to the suburbs had their traditional source of strength, "wholesale" banking, been maintained. A wholesale bank caters to business borrowers, chiefly the big corporations. In contrast, a "retail" bank also welcomes the accounts of small savers and borrowers. In recent years, as interest rates have risen, the big corporations have channeled more and more of their idle funds into short-term marketable securities, such as Treasury bills, acceptances, commercial and finance company paper. They have pared their bank deposits to the bone. At the same time, they have demanded an increasing number of banking services, and they have insisted upon prompt reduction in borrowing rates whenever market rates have turned downward.

Limited and vulnerable

For the wholesale banks, deposit growth has been limited and earnings have been vulnerable to changes in interest rates. To a degree, however, these factors have been offset by their low expenses. In contrast to a retail bank which may operate 100 or more offices, a wholesale bank often needs no more than a single location. This, in turn, means fewer officers and personnel. Because the wholesale bank makes no attempt to reach the general public, advertising and promotional costs are minimal.

On the other hand, the inexorable rise of expenses has caused more than one retail bank to covet the

fee income—from trust, corporate service, securities and foreign departments—that a big wholesale bank may bring to a merger.

Over the past 10 years banks have been able to escape the squeeze on profits caused by rising expenses in at least three ways. They have increased borrowing rates. They have shifted more and more of their assets from low-yielding investments to higher-yielding loans. And they have made more intensive use of their capital.

But no banker expects these expedients to exert the same force in the Sixties that they did in the Fifties. Hence the almost mystical acceptance of automation. Already, however, bankers have been disappointed to learn that mechanical check handling and electronic bookkeeping offer little promise of cutting costs. All they can hope is that the automatic fingers and brains will hold down the increase.

If automation is a factor pushing larger institutions toward merger, it is a force jet propelling the smaller ones. For the ability to make efficient use of the new machines increases greatly with size. As a result, small banks have considered establishing equipment cooperatives in which pools of automatic machines would be shared by several institutions. They have thought of renting equipment part time from nearby industrial users of computers. They have discussed with their big city correspondent banks the possibility of having them perform their electronic accounting chores. Often, however, the simplest answer is to merge.

The simple answer figures importantly in many merger decisions. For tired management is an ailment afflicting many banks. For almost a quarter-century the industry failed to replace its aging senior officers. In the last decade banks have made determined, often desperate, efforts to fill the management gap. Frequently, however, their efforts have proved unavailing. A special problem affecting the owners of small, closely held institutions who are unable to find or train successors is the difficulty of finding a market for their shares. For them, merger of their banks into larger institutions often offers a way out of tax and estate difficulties that

otherwise seem impossible to solve.

As the bankers might have anticipated, the merger wave touched off an explosion of Congressional criticism. To support his allegation of a swift drift toward monopoly in banking, Sen. Estes Kefauver (D.-Tenn.), head of the Senate Antitrust and Monopoly Subcommittee, trotted out well-worn statistics: a decline in the number of banks in the United States from 30,000 in 1921 to 13,472 at the end of last year; the fact that the 100 largest banks now control 47.4 per cent of all commercial bank deposits; and the elimination between 1950 and 1959 of more than 1,600 banks by way of merger and consolidation. As a result, he said, "hundreds of small, rural American communities have become bankless towns."

A critic, Morris A. Schapiro, noted that the Senator had omitted to mention certain other facts: that between 1921 and 1933 the reduction in the number of banks totaled 14,854; that bank suspensions averaged 600 a year during the Twenties and soared to 9,000 in the four-year period 1930-33; and that between 1934 and the end of 1960 there

banking offices in the country rose from 19,116 in 1934 to 24,242 at the end of 1959. If rural communities were bankless, he added, it was more than likely that they were too small to support their own banks and that state laws—like those of Missouri and Illinois—prevented larger banks from establishing branches there.

Until quite recently, banking crises were common. As a result, one of the main responsibilities of the government agencies that supervised banking was the prevention of excessive competition. Banking mergers were not only permitted; they often were encouraged as a way of strengthening the banking system. Partly because of such reforms as federal deposit insurance, but chiefly because of better earnings and the growth of larger, more stable banking units, the number of "shotgun marriages" in banking has dwindled almost to zero.

With stability have come demands that more attention be paid to maintaining competition, not merely soundness, in banking. Both the Bank Holding Company Act of 1956 and the federal bank merger statute enacted last year established the

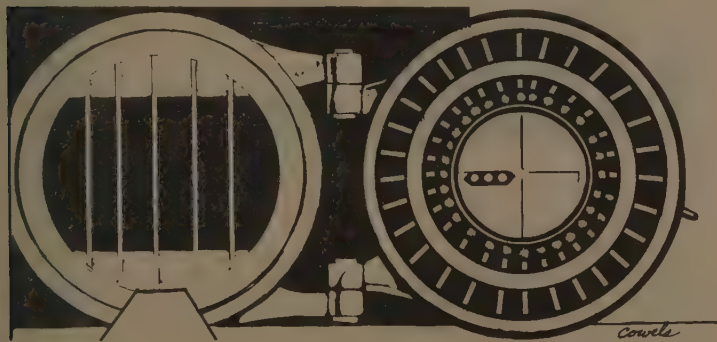
given to each factor to the appropriate federal supervisory agencies—the Controller of the Currency for national banks, the Federal Reserve Board for state-chartered Federal Reserve member banks, and the Federal Deposit Insurance Corp. for insured nonmembers.

Under the two laws, the Justice Department was assigned an advisory role only. But nothing was done to prevent it from challenging in the courts holding company acquisitions or mergers that it considered in violation of the antitrust statutes.

In a landmark case, the Justice Department attacked the acquisition of the California Bank, Los Angeles, by the Firstamerica Corp., a holding company with units in 11 Western states. The transaction had been approved previously by the Federal Reserve Board. The case ended last year in a consent decree which permitted Firstamerica to go ahead with the merger, achieving its objective of representation in the Los Angeles as well as the San Francisco area. But as part of the agreement, Firstamerica was required to spin off about one-quarter of its assets and one-quarter of its branches to form a new state-wide banking system.

Although the Department of Justice did not hesitate to challenge a holding company application, until this year it moved slowly against bank mergers. The reason was that the Clayton Act, which prohibits acquisitions that may threaten competition or tend toward a monopoly, was thought limited to the purchase of shares. In contrast, most bank mergers are accomplished through the purchase of assets. When, infrequently, the Department thought that it could demonstrate actual impairment of competition, it invoked the Sherman Act. Two years ago the threat of such action was sufficient to block the merger of two banks in New Haven, Conn.

To disabuse bankers of any notion that the new merger statute might exempt them from prosecution under the antitrust laws, Attorney General Robert F. Kennedy moved swiftly after taking office to challenge the merger of the Philadelphia National Bank and the Girard Trust Corn Exchange Bank. The merger,



had been a net reduction of only 800 banks.

Mr. Schapiro explained that in the years 1950-59, although 1,482 banks were merged, liquidated or otherwise ceased to operate, 763 new banks were established, making the net decline 719. As for the big banks' share of deposits, this has remained virtually unchanged since the end of World War II and is lower than the figure of 56 per cent in 1940.

Meanwhile, because of the opening of branches, the total number of

preservation of competition as one of several factors to be considered in judging a holding company acquisition or merger. Significantly, however, it was only one of the factors. Others included the history, financial condition and capital adequacy of each of the banks involved, their prospects, the character of their managements and the convenience, needs and welfare of the communities and the area concerned.

Congress gave the responsibility to determine what weight should be

his lawyers complained to the court, would create an institution half again as large as the First Pennsylvania Banking and Trust Co., now number one in the city. And together the two largest banks would control 62 per cent of the city's commercial banking assets.

Upset and postponement

Within a week the new Attorney General moved to upset a Lexington, Ky. merger, approved by the Controller of the Currency, and a Milwaukee holding company acquisition approved by the Federal Reserve Board. Subsequently, the Federal Reserve Board has denied applications of two holding companies, the Marine Midland Corp. in New York State and BancOhio Corp. in Ohio, each to acquire an additional subsidiary. The New York State Banking Board, citing competitive factors, has denied permission to Bankers Trust Co. to acquire the County Trust Co. of Westchester. And the Controller of the Currency has agreed to postpone approval of any merger within his jurisdiction looked upon with disfavor by the Justice Department.

Only in Boston could merger-minded bankers find any silver lining to the dark cloud of recent events. There, the Federal Reserve Board approved a merger of the State Street Trust Co. and the Rockland-Atlas National Bank, despite the adverse recommendation of the Department of Justice. And, initially at least, the Department made no attempt to sue.

Each of these decisions represented a response to the difficulties that arise from joint enforcement of the merger and antitrust laws by the bank supervisory agencies and the Department of Justice. Until the courts determine the Department's jurisdiction or Congress enacts new legislation, the confusion is likely to continue.

Apart from the issue of jurisdiction, the fundamental question remains: How does competition in banking differ from competition in unlicensed and unregulated industries?

In the first place, not everyone may set up shop as a banker. Because a banker trades primarily not with his own capital but with the

funds entrusted to him for safekeeping by others, entry into the business is severely circumscribed. Before he may obtain a charter, he must undergo scrutiny not only as to the adequacy of his finances but also as to his management skill and character.

If he gets a charter, he finds himself assigned to a limited geographical area in which to ply his trade. Once in business, he is subject to a host of limitations on the kinds of business he may do, on the amounts he may obtain from any one customer, on the prices he may charge for his services and on the interest he may pay on deposits—his raw



material. Meanwhile, he is exhorted to compete, but not so keenly as to impair the soundness of his competitors or damage public confidence in the banking system. In all, banking is about as unlike the Seventh Avenue garment industry as any nongovernment business in the United States.

Product lines and market areas present equally difficult problems. A bank may do the bulk of its retail business—installment loans, savings deposits and special checking accounts—within its home city or metropolitan area. It may range the nation to obtain deposits and loans from large national corporations. And it may look to Europe and beyond for its foreign business. Any merger that may “substantially lessen competition in any line of

commerce in any section of the country” violates the law as laid down in the Clayton Act.

Assuming that a proposed merger would have little effect on retail banking competition, should it, nevertheless, be prohibited because one fewer bank in a city would be competing for national and foreign business? The Bank Holding Company Act and the bank merger statute, in contrast to the Clayton Act, require consideration of the “needs and convenience” of the community. Assuming that the merger of a city with a suburban bank would somewhat limit retail competition, should the merger still be approved because of the additional services offered in the suburban territory?

One facet generally overlooked in discussions of competition among commercial banks is the great increase in competition from other financial organizations. If a person is unable to find what he wants at a commercial bank, he can turn to a savings bank, savings and loan association, credit union, finance company, factor, foreign bank agency, commercial paper, acceptance or government securities dealer. Still a further factor is the banks' complaint that their biggest customers have been growing faster than they have. They have noted that the biggest private borrower in the country requisitions funds from as many as 450 banks and still is forced to resort to the open market.

Seldom, if ever, is it realized that a halt to further mergers might lessen rather than maintain competition. For banks that already have trod the merger route, action barring the road to others would, in effect, “lock them into the candy shop.” And it would do nothing to disturb the complacency of the only true banking monopolists. These are those bankers in small, one-institution towns who are effectively protected from competition by legislative edict. Although many make a determined attempt to serve their communities, not a few continue to pay one per cent or less for savings, to make home buyers get mortgages elsewhere and to tie up their assets in low-yielding investments rather than actively seeking to meet the credit needs of the area. ■

CHALLENGE NOTES

Sidelights on the passing economic scene

A NEW AAA BBC IN ACTION—The Gale Research Corp. of Detroit has published the *Acronyms Dictionary* that translates "the 'initialese' used so widely today in conversation and printed form." More than 11,000 acronyms—such as WAC, FHA, NAM, NEA, NAZI, RADAR and UNICEF—are listed.

► *Does Fannie May CARE?*

DO-IT-YOURSELF—An Australian manufacturers' publication describes a new handyman's tool manufactured by a Melbourne engineering company. Comprised in the tool are "a dowelling jig builder's clamp, mitre jig, carpenter's vyce, piercing punch, special punch clamp, pipe cutter, pipe vyce, screw press, turning and shaping centre jig."

► *What, no corkscrew?*

THAT ETHEREAL LOOK—According to *Printers' Ink* the recent Dial soap ads owed their success to the "freshness, vitality, cleanliness and enjoyment" conveyed by photographs of girls using the product. To capture these "ethere-



al qualities" the photographer "delivered a steady stream of directions, gags and endearments to each model" as she sat, dowsed with water and well annotated with suds in front of his camera.

► *Glub.*

AUTOMATION MARCHES ON—RCA has developed a "Total TV Automation System" in which both broadcast programming and station business procedures would be under complete control of a computer system. This concept, said C. H. Colledge, Division Vice President and General Manager, RCA Broadcast and Television Equipment Division, represents "the ultimate in television station automation—a goal toward which the industry is moving rapidly . . . with its benefits of greater

efficiency and the reduction of the chance of human error."

► *Now on to a creativity machine to produce the perfect script!*

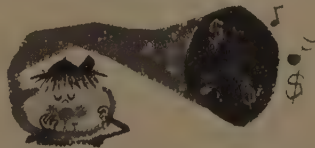
SECOND RATE—Brand X, treated with such derision by other brands in the past, has come into its own. Not long ago Brand X cigarettes, "for the man who is content with the second best," made their appearance. We are glad to record that the promoters have got back their original investment and are looking for new, unimportant markets to infiltrate. In England, we hear, 45,000 boxes a day of Brand X soap powder are being produced. Charles Terry, the entrepreneur of this modest venture, feels that his soap product gives clothes a perfectly adequate wash.

The report from Hartford, Conn. is that Brand X whiskies are on sale there, presumably for men of moderate distinction. And in Cincinnati, a Brand X window cleanser is being made—probably for women with a dull outlook.

GONE WITH THE TIDE—Thirty million cubic yards of debris are removed from New York harbor waters every year. Recently, the objects collected included several grand pianos—and the carcass of a giraffe.

► *The problems of an economy of abundance are getting tougher.*

SALES SYMPHONY—"In musical instruments, 48,000 school bands, 25,000 orchestras and 1,500 symphony orchestras create a big market. Nine and a half million children are now playing



musical instruments. Band instrument sales jumped from 68,000 in 1949 to a whopping 385,000 a decade later."

News release from Dun's Review.
► *Beating the drums on behalf of culture in an expanding economy?*

ONE HUNDRED PER CENT CONFUSING—We're still puzzling over a sentence in a letter advertising Bertrand L. Hansen's book, *Work Sampling for Modern Management*. "The book," states the letter, "shows sampling to be easier to use, more economical and accurate, and far less fatiguing than 100 per cent observation."
► *Is 100 per cent accuracy guaranteed?*

GETTING AWAY FROM IT ALL—N. W. Hunter of Douglas Aircraft Co. reports that future vacationers may be



able to take a round trip to the moon for the bargain price of \$600.

► *Fly now, pay later, bring your own air.*

NEWS OF VIEWS—Maybe you've noticed that media (jargon for anything that carries ads) are constantly coming up with surveys showing leadership in readership, salesmanship or growthmanship. Well, a short time ago the latest word along Madison Avenue was that *Mediascope* magazine had uncovered a survey of surveys. This study reported that four out of five buyers of advertising space or time do not believe that the surveys made by media are usually honest.

MORE NEWS OF MORE VIEWS—From the National Industrial Conference Board, which conducts survey upon survey, comes the news of another survey of surveys. The NICB has discovered that when employers survey their employees, it's only the beginning. "Today," states its report, "the emphasis is on feedback. In order to interpret the findings accurately, management often finds it helpful to go back to the employees for more information; feedback is a means of getting that information."

► *Perpetual motion for pollsters.*

BOUDOIR AND MACHINE SHOP—Du Pont's chemists are jubilant about "Baymal," a colloidal alumina they have developed. What makes them dance around their test tubes is the product's versatility. In one form it is hard enough to machine steel, while in another it can be used to make a skin lotion smoother.

► *Them smoothies is sharp.*

CAN WE GET MORE FOR LESS?

by **SERGEI DOBROVOLSKY**

■ **ECONOMIC PROGRESS**, which is something we all want, is predicated upon a continual rise in the amount of goods produced in proportion to the human effort expended. These productivity increases are based on a combination of new technology and a growing amount of capital equipment available to each worker. In other words, there must be an upward trend in the ratio of capital to labor. It is less clear, however, whether one should expect capital and output to expand at approximately the same rates, or whether the capital to output ratio should also show a definite trend. (See box, *opposite page*.)

In the absence of significant technological innovations, a rise in output per unit of labor may be attained by giving each worker more capital equipment to operate with. In contrast, when technical innovations are made, it becomes theoretically possible to produce a greater amount of goods without increasing the amounts of either labor or capital employed. Of course, when major technological changes occur, the proportion in which the two factors are used rarely remains unchanged. Some innovations are primarily labor-saving; they enable the industry concerned to reduce substantially the amount of labor required per unit of product, while capital requirements remain essentially unchanged. Other innovations fall into the capital-saving category: they result in a material reduction of capital input per unit of product, leaving labor input without much change.

In a complex and growing economy both labor-saving and capital-saving innovations are generally

being made, but their relative importance is apt to change considerably from one period of time to another. Consequently, the ratio of capital to output may rise in one period and fall in another, depending essentially on (a) how rapidly capital stock is increasing in relation to total employment and (b) how many technical innovations are put into effect, and what proportion of them falls into the capital-saving category.

The capital to output ratio has an important bearing on the relative shares of the national product that are to be absorbed by the consuming and producing sectors of the economy. Assume, for example, that the average capital-output ratio is two (\$2 of capital is required, on the average, to produce \$1 worth of output per annum) and that national product is growing at an annual rate of 10 per cent. If the capital-output ratio remains constant, capital stock must also be expanded at the rate of 10 per cent per annum. This can only mean that for every 10 per cent increase in the national product, 20 per cent of the total product must be made available to industry in the form of capital goods.

Replacement requirements

In addition to the need for new capital, industry will also have to meet certain replacement requirements. If we assume that 10 per cent of the capital equipment must be scrapped and replaced each year, then another 20 per cent of the national product will have to be allotted to the producing sector in the form of capital goods. Obviously, if the capital-output ratio were higher than two, replacement requirements would be even greater, unless capital goods became more durable and the depreciation rates were reduced.

If the amount of capital required per unit of output showed an upward trend instead of remaining constant as assumed above, then the output of capital goods would also have to rise at an increasing rate in order to maintain a steady rate of national product expansion. On the other hand, if substantial capital-saving innovations were made, the pressure to expand the output of

capital goods would ease with no adverse effect on the rate of growth of the national product.

In general, then, a continual decline in the capital-output ratio should tend to increase the proportion of total national output available for current consumption without jeopardizing the nation's growth potential. This appears to be a socially desirable trend, but it should be borne in mind that changes which are technically feasible may or may not be realized depending on the working of the economic factors involved.

Our economic system can operate smoothly and efficiently only if both the saving and investment propensities of the people remain in balance. What this means is that in a period when industry requires heavy investments in capital stock, the economy must be able to generate a sufficiently large amount of savings and make them available to the producing sector in the form of capital funds. In a period when capital formation requirements decline in relation to the national product, the level of the people's savings and the flow of capital funds must be correspondingly adjusted downward.

With this background in mind let us examine past historical trends in the capital-output ratio in our economy and the major factors responsible for these trends. In recent years, comprehensive statistical studies of the capital-output ratio in major American industries have been conducted under the sponsorship of the National Bureau of Economic Research. It would, of course, be impossible to discuss here the significance of various alternative definitions used and technical adjustments performed in these statistical studies. All we can do is indicate a few of the general relationships brought to light and the explanations suggested by the investigators.

According to Dr. Simon Kuznets, the ratio of capital stock to annual national product in the U.S. fluctuated considerably during the 1869-1955 period. But his figures, which represent averages computed for the successive decades (in 1929 prices), do not indicate a persistent trend in either direction over the entire span.

When net capital stock (less depreciation and retirements) is related to net national product, the ratio of capital to output increases from 2.9 to 3.6 in the early part of the period (1869-1918), but then declines to 2.4 during the latter part (1919-55). When gross capital stock is related to gross national product, the ratios are higher (ranging from 4.5 to 7.3) but the general pattern of movements over time remains the same: *the figures increase during the first part of the period and then decrease during the second part.*

Patterns of behavior

When capital-output ratios are considered for different industrial sectors, considerable variation is found for a given period and also in the movements over time. However, certain basic patterns of behavior can be observed in the historical development of most modern industries.

In its initial stage, a new industry requires relatively large capital expenditures on plant, equipment, etc. When such expenditures are planned, the managers of the firms involved have to consider not only current but also probable future demand for their products. When new plants are first put into operation, current output is likely to be relatively small and the capital-output ratio correspondingly high. But as sales of the new product expand, the

equipment may be utilized more efficiently and the capital-output ratio will decline.

The initial rise and the subsequent fall in the capital-output ratio has been most pronounced in the public utility sector of our economy. As reported by Dr. Melville Ulmer, the ratio of plant and equipment to output (in 1929 prices) in the electric light and power industry rose from 4.4 in 1887 to 12.1 in 1890, and 18.4 in 1893. Subsequently, it dropped to 12.5 in 1900, 4.5 in 1920 and 1.3 in 1950.

In the manufacturing sector the capital-output ratio has generally been much lower and has fluctuated less widely. Also, in manufacturing, the ratio continued to rise over a much longer period. According to Dr. Daniel Creamer, the ratio of net capital to output (in 1929 prices) rose from .5 in 1880 to 1.0 in 1919, and then declined to .6 by 1953.

Several factors have been responsible for the differences between the two sectors. Since in utilities the capital-output ratio was especially high in the early period, the cost of capital has been a factor of much greater relative importance in that sector. Accordingly, once the period of the initial rapid expansion was over, the pressure to economize on capital began to be felt more strongly in utilities than in manufacturing.

Furthermore, the technological processes in public utilities were such as to allow important capital-

saving innovations to be introduced at a relatively early stage. In the electric light and power industry, for example, the introduction of alternating current, the transformer, the high voltage lines and system interconnection greatly increased the ability of central installations to service far more extensive areas. In railroads, the work capacity of freight and passenger cars, tracks and locomotives began to improve after the early days of the industry's history.

In manufacturing, labor costs were generally high in relation to capital costs, and the pressure to economize on labor was especially strong. It is not surprising, therefore, to find that capital innovations made in that sector tended for a long time to replace labor in the productive process rather than increase output per unit of capital.

Shifts and increases

There were other factors which tended to raise the capital-output ratio in manufacturing during the 1880-1919 period. First, there was a continual shift in the composition of the manufacturing sector. The industries in which the capital-output ratios were comparatively high for technological reasons (e.g., chemicals, motor vehicles, agricultural machinery) were growing more rapidly and therefore gaining in relative importance; while the industries with comparatively low capital-output ratios were growing more slowly and therefore receding in relative importance within the sector. Secondly, the period was characterized by pronounced increases in the average size of the productive unit in manufacturing. And as the size increased so did the capacity for using labor-saving machinery.

By the end of World War I the manufacturing industries in the U.S. had reached a relatively mature stage of development. Although we usually think of the Twenties as a decade of great prosperity, the rate of industrial growth was lower during that period than it had been during several previous decades. No important new industries were being developed that would have required new capital expenditures on a very large scale. Technical improvements were, of course, made continually,

INCREASING PRODUCTIVITY—KEY TO PROGRESS

THE PRODUCTION of more goods with less human effort is a generally accepted barometer of economic progress. Equally important, however, is the amount of *capital* which must be provided to obtain each unit of output. This is generally known as the capital-output ratio.

The ratio varies, of course, from industry to industry. In utilities, for example, there is a wide fluctuation. It is quite high in the early years when the basic equipment is first installed. But once this initial period is over there is a sharp leveling off. In manufacturing, however, the fluctuation is much narrower.

Although the long-term trend throughout the economy has been toward a diminution of the ratio, it tends to rise in certain periods. During the 1950s, for example, it tended to rise as industry expanded capacity in anticipation of future demand.

In predicting the future trend of the capital-output ratio the most important factor is automation. While it is obvious that an automated factory will produce more output per unit of *human* effort, Prof. Dobrovolsky, an expert on capital formation and its financing, believes that in the long run the automated plant will not only be labor-saving, but capital-saving as well.

but they began to tend more in the direction of increasing the efficiency of capital—i.e., expanding output—than toward the replacement of other factors of production.

Machines were made to operate at greater speeds, to last longer, to perform with fewer breakdowns, to consume less power and fewer raw materials. Various types of control instruments were developed which helped to reduce wastage, improve quality and minimize the loss of time through breakdown of equipment. Improvements were made in plant layout, mechanization of intraplant movement of materials, etc. All of these changes contributed to the decline in the capital-output ratio during the Twenties.

Rise and decline

The depression years of the Thirties saw the capital-output ratio rise initially, owing to the sharp drop in output, but then decline again due to strong pressure for a more economical use of capital. The ratio continued to fall in the early and middle Forties. The demand for war materials during World War II and the pent-up demand for civilian goods in the immediate postwar years made for a high and intensive use of existing capital stock.

In the late Forties and early Fifties, however, the capital-output ratio increased slightly, owing to large capital expenditures that created additional capacity geared largely to expected future demand rather than current demand.

As our brief historical review has indicated, the relationship between capital and output is dependent on a variety of factors—technological, organizational and economic. Some of these factors have remained relatively stable over time; others have been subject to cyclical fluctuations; still others have waxed and waned

in an irregular manner. In view of the complex interrelationships involved, it would be highly hazardous for anyone to attempt a firm prediction of how the capital-output ratio will behave in the years and decades to come. All we can really do is to outline some of the factors that may reasonably be expected to play an important role in determining the direction in which the ratio will move in the future.

We live in a period wherein substantial technological advances are being made in a number of industrial areas. One technological factor which has assumed important proportions in many industries in the postwar period is known as "automation." Broadly, this term applies to all technical innovations designed to guide automatically—largely through the use of electronic devices—the operation of machines and the transfer of materials.

Automation clearly has important labor-saving implications. This aspect of it has been watched for some time with considerable concern by labor unions and has recently received special attention from the federal government. A special unit—Office of Automation and Manpower—has been set up in the Labor Department to study the displacement of manpower caused by new technology and to find cures for the resulting unemployment.

It is less well known that the installation of automatic equipment has in many instances proved to be, on balance, *not only labor-saving but also capital-saving*. A number of industry representatives testified to this effect at Congressional hearings in 1955.

Economizing on capital through automation may be achieved in a variety of ways. Important reductions may be obtained in the floor space requirements and, consequent-

ly, in lighting and heating expenses. Automatic equipment may reduce total investment as more operations are simplified and compressed into smaller special-purpose machines. A greatly increased speed of operations may also result in important economies. Another pertinent factor is the possibility of dividing production among several plants spread over a number of smaller communities where factory sites are much cheaper than in the large cities and where other important economies may be achieved.

Economics and efficiency

Automatic devices may also result in a more economic use of working capital. Through the use of electronic computers and the application of "operations research" methods, more precise information is made available on the relationships between sales, production, required inventories of raw materials, goods in process and finished goods. This enables the business units concerned to come closer to the optimum utilization of their inventories and technical equipment so as to secure smooth, uninterrupted operations, reduce wastage, eliminate excessive stocks and utilize idle machinery. Moreover, the reduction in man-hours and inventories per unit of product enables the business to reduce its cash requirements for meeting payrolls, suppliers' bills, etc.

Of course, when major technical innovations require a substantial degree of retooling and re-equipment, the capital-output ratio in the industry concerned must temporarily increase. According to technical experts, major advances may be expected in the near future in such areas as energy sources, space technology, communications systems and uses of materials.

Industrial progress is basically de-



pendent on energy supply. Development of the primary nuclear sources of energy—atomic fission and atomic fusion—is expected to radically change our industrial capabilities. The developments in this area have, however, been slower than expected, due to both technical and economic factors. It has been pointed out, for example, that while the industrial application of the fission process is already feasible, it cannot as yet compete economically with steam turbine plants.

Space technology holds the promise of literally opening up new worlds. A realistic time schedule, however, moves such projects as colonization and industrial exploitation of other planets, even within our own solar system, far into the future. On the other hand, such projects as the use of man-made satellites for navigation and trans-oceanic radio communication appear to be feasible in the relatively near future.

Various electronic devices promise swift changes in such means of communication as telephone, radio and television. Advances in materials technology have already made possible plastic automobile and truck bodies. Applications in buildings and homes may soon be expected on a large scale. Inorganic, organic and metallic materials are being combined in new ways that permit important industrial applications.

Rates and costs

The speed with which new inventions can be adopted and put to actual use in industry depends on economic as well as on technological factors. In order to construct new plants and install new equipment industry must secure adequate financial resources. Business firms determine their new capital needs by considering the expected rate of return on new investment on the one hand and the cost of new funds on the other. With a given state of profit expectations, business will borrow less if the interest rates are raised and will be less inclined to use equity funds if it has to pay higher dividend rates. The government may strengthen or weaken the incentives to make new capital expenditures by changing its monetary and fiscal policies—especially its pol-

icy with respect to business taxation.

The supply of new capital funds available to industry depends on the level of national saving and the willingness of the savers to invest their funds in industrial ventures of varying degrees of risk. There has been much talk about the shortage of venture capital in the postwar period. The investors have been much more cautious and conservative in recent years than they were in the Twenties or earlier decades.

If further technical advances requiring major re-equipment of a large segment of industry occur in

the near future, and if the national income and saving levels are raised sufficiently to permit an adequate flow of capital funds, then the capital-output ratio will temporarily rise. Once the initial wave of capital expenditures has subsided, however, the gradual process of capital-saving will make itself felt once more and the ratio will probably resume its slow downward trend.

In the long run the economy should be able to continue producing an increasing amount of product not only per unit of labor but also per unit of capital used. ■

Private pension funds

Needed: Legal Safeguards

by **PAUL P. HARBRECHT, S.J.**

■ THE SNOWBALLING of corporate pension plans is a very remarkable phenomenon of today. Perhaps even more remarkable is the relative informality with which most of them have been set up.

The majority of these plans are noninsured, that is, they are not financed through payments to an insurance company which guarantees a certain level of benefits to employees on retirement. Noninsured plans are generally set up as a trust. Thus the level of benefits paid to a retired employee will depend on the amount of money in the trust.

Such private noninsured pension funds more than quadrupled their assets during the 1950s. The sum accumulated in them now totals almost \$29 billion. Yet the careful state regulation that surrounds the life insurance industry is almost entirely lacking in the pension field. Is it wise to take so much for granted?

Much is at stake. In our capitalist society, private noninsured pension funds have an impact as wide as the nation's economy and as close to home as the man next door. If we compare their size to the national debt, or their annual increase (\$3.4

billion in 1960) to the national product, they may not seem large. But they are strategically placed. Noninsured pension funds have bought more stocks annually in the last four years than any other class of investor. Main Street is profoundly affected, too, because the future security and happiness of millions of Americans is directly tied to the success of the pension trusts.

There are two areas of responsibility in question. One concerns the activity of pension trustees in the capital market; the other involves the rights and hopes of the worker.

When we refer to the trustees of a pension fund, we are talking about a bank or a trust company to whom the employer makes contributions to cover the liabilities incurred through his promises to pay pensions. As most plans are set up, an employee acquires credits—i.e., claims upon his employer—for pension payments in proportion to the time he works and to his salary.

The advantage of the pension trust system is that a responsible trustee can invest the employer's current payments so as to reduce the ultimate cost of a pension by increasing the earnings of the fund. Expert

handling of a pension fund by a financial trustee can mean enormous savings to the employer since even a small gain in investment earnings, by compounding over 20 or 30 years, can amount to a considerable sum of money. Thus, it is an almost universal practice for a noninsured pension fund of any size to turn over its assets to a financial trustee to be prudently invested.

The need to invest therefore puts the financial trustee into the capital markets in a big way. Trustees of this type now have close to \$29 billion invested in various ways throughout the United States. The annual sums of new money they must deploy in the capital markets are in the neighborhood of \$3.5 billion.

The policies worked out by the pension fund trustees to perform their task are determined by the obligations they assume. These trustees will tell you that their obligation is to protect and increase the fund for the benefit of the worker, and that they have the worker in mind in the formulation of their policies. At the same time, the trust instrument or contract gives the employee no right to challenge any action taken by the financial trustee. The only obligation recognized in this legal document is the duty that the trustee owes to the employer. The employer is thus the only one who can ask the trustee to account for his stewardship. Several courts have suggested that the trustee has an obligation to the employees, but as yet no such right has been solidly established in the law.

The real power to direct the trustee or to supervise his actions lies with the employer. The employer has the right to change the trustee at will and need not even give a good reason for doing so. Thus it is to the influence of the employer that a trustee will respond most quickly.

The trusts are legally arranged so that the financial trustee need only see that the funds entrusted to him are properly invested and earn a respectable rate of return. The trustee assumes no responsibility for the adequacy of the fund to pay the pensions the employer has promised to his employees.

It is with these obligations in

mind that we must judge how well the trustees have carried out their stewardship. Although some trustees have made headlines by their efforts to loot pension funds, the vast majority of funds are in the hands of trustees of great probity. Indeed, a large banking firm could hardly stand a scandal with regard to one of its pension funds. Thus, there has never been any evidence that one of these large trustees has failed in any notable way to live up to its responsibilities.

Significant trend

The most significant recent trend in the investment policy of pension trustees has been their growing preference for common stocks. In 1959 and 1960 pension trustees invested 50 per cent of their net receipts in common stock, considerably more than in any previous year. Their net purchases of stock in 1960 amounted to \$1.7 billion, while their *total* stock purchases, including reinvestment, amounted to \$2.3 billion. It is significant that acquisitions of the pension funds in 1960 amounted to 52 per cent of new equity issues (compared to 24 per cent in the 1954-56 period).

Some observers have expressed concern over this consistent policy of acquiring large amounts of stock. Others have pointed to the fact that pension funds own only about three per cent of all stock outstanding in American corporations. Such a small percentage, they maintain, means that it is unnecessary to be concerned over control of corporations by pension fund trustees. The percentage of outstanding stocks owned by the corporate pension funds is growing, but not very rapidly.

It should be pointed out, however, that the pension funds have been buying significant quantities of stock for only about 10 years. Funds will continue to flow into these trusts in increasing amounts for at least 10 years more. If the present trend continues, it is possible that they will own as much as six or even seven per cent of all the stocks outstanding. The possibility that pension fund trustees may eventually control a significant number of corporations becomes more interesting when we realize that these trustees concentrate their purchases in a ra-

ther narrow range of securities. Obviously, they are not investing in all the stocks in the U.S. or even in a majority of those listed on the New York Stock Exchange.

Control of corporations, then, by pension fund trustees is not a threat today and we may expect that overt control never will be. However, it is now a fact that these institutional investors can have a powerful influence on corporate policy. The opinions and practices of the institutional investors are watched very closely by the managers of top corporations. If a large financial institution representing several pension funds began to sell off its holdings in a certain issue, the effect upon the market value of the shares of that corporation could be catastrophic. Something like this happened when the pension funds liquidated their holdings of tobacco stock at the time of the cancer scare.

Until 1957 pension funds annually increased their purchases of stocks while their purchases of government securities declined. Then in 1957 and 1958 their acquisitions of corporate bonds also began to decline proportionately, while their purchases of stocks continued to climb. In 1959, for the first time, the pension funds spent more money buying equities than they spent for bonds, and this by a \$500 million margin. If this trend continues, and if it represents the policy of other financial institutions as well, it could bring corporate control back from the provinces to Wall Street.

There is no suggestion that the pension fund trustees have made this decision out of a desire to acquire control of the corporations in which they buy stock. The only explanation of this shift toward stocks consistent with their traditional policies is that they feel this kind of investment is more advantageous to the funds they represent.

External limitations

One of the main external limitations which the corporate trustees must recognize comes from the banking laws of the states in which they operate. These laws merely require the trustees to follow accepted canons of prudence and safety in their investments. Thus, they are not limited by law to a list of specific in-

vestments, as are the life insurance companies. Furthermore, the trust indenture may grant the trustee power to purchase any investment which he judges will be beneficial to the fund.

Banking ethics

Should a serious problem of corporate control arise, and should it appear that a pension fund is gaining control of competing corporations, the Antitrust Division of the Department of Justice would be deeply interested. An antitrust question might also be raised in a case where the trustee of a large pension fund was directed to buy and sell the stocks and bonds of a competitor of its corporate contributor. The ethics of the banking profession would, however, effectively prevent this kind of dealing on the part of the larger financial trustees. It is not so apparent that all corporations would recognize this kind of limitation. It could prove very interesting to some smaller corporations to explore the uses of pension fund investments as an instrument of competitive policy.

When we turn from the pension policies of trustees to those of the employer corporation we meet even more pressing questions. One such problem is best described by an example.

Let us suppose that the ABC Company has a pension fund amounting to \$20 million, a sum not unusual for a corporation employing 1,000 or more employees. Let us suppose further that a Cash McCall casts a longing eye on this corporation and begins to buy up its stock in order to gain control of the company. This is a man who is interested in milking the corporation of every dollar he can get from it. What might he do with the corporation's rather generous pension plan? And what could the corporation or the employees do to protect it?

There are provisions in nearly every pension plan stating that the employer may terminate or amend the plan at will. These clauses are necessary because, if the company fell upon hard times, the employer might be bankrupted by pension commitments. But a new management might use these clauses to its advantage if it wished to terminate

the pension fund or to pay less money into it.

By using these clauses our corporate raider, when in control of the corporation, might well stop all payments into the fund and employ the money already accumulated there to pay pensions as they fell due. He could say that after the fund had been depleted, he would carry on the plan on a pay-as-you-go basis. The fund's assets would provide for pensions for many years before he would have to begin paying pensions out of current profits. Or suppose, even worse, that he should decide to terminate the pension plan, pay out whatever back taxes the Internal Revenue Service might demand, pay up pensions that already were due and pocket the rest.

In such a situation the only recourse the employees would have



would be to appeal to their union contract. If there were such a contract, the new corporate management need only wait until the contract ran out and refuse to renew it. Certainly there are situations in which a corporate raider operating from a large base could afford to wait out the resulting strike. It has been done before. In the absence of a union his path would, of course, be easier. In the light of such a possibility, how safe, how secure are the pension expectations of the employees of the smaller corporations in our economy?

The situation described above is real, though rare. But there are other conditions under which it might be necessary to terminate a pension plan. According to Internal Revenue reports, there have been relatively few terminations thus far in the history of the pension movement.

During the fiscal years 1956-59 about 1,400 plans were discontinued. The best available data on the reasons why pension plans were terminated covers only three months in 1957. Of 51 plans discontinued during that time, the most frequent causes of termination were mergers (14), sale of the company (8), financial difficulties (13), and the dissolution of the corporation (5).

Such data as we have from other sources suggest that, in some cases at least, employees covered by private pension plans are deprived of their accrued pension rights when plans are terminated. To be sure, before any firm conclusions can be drawn, more information is needed. But it should be noted that during the time the pension fund system has been in full force, economic conditions have been relatively good; moreover, heavy demands upon the pension funds have not yet begun.

We might sum up the situation by saying that except for those employees who have actually retired—and in some cases they must be included, too—the guarantee that a promised pension will actually be paid in full is only as good as the solvency of the corporation and the continued willingness of the employer to carry out his promises.

What protection is available to the employee whose pension plan is jeopardized by the action of his employer? First of all he can appeal to the courts. If he can convince a court that the funds invested in a pension plan are in fact a true trust, he might successfully argue that funds already committed to payment of his pension may not be used for any other purpose. But this remedy is of doubtful value. Most decisions in this matter have indicated that a pension is a gratuity and not a right that accrues to the pensioner because he is the beneficiary of a trust.

Over the hurdle?

Even if the pensioner does surmount the hurdle of getting a court to agree that his pension plan is indeed a trust, there is no way in which he could compel the employer to continue contributing money to the trust. This would probably be true of any trust, but it certainly follows in the case where the employer expressly reserves the right to

discontinue the pension plan at any time.

Another source of protection for the assets of a pension plan is the law on the taxation of pension trusts. Since a pension plan can receive great tax advantages if set up to comply with certain conditions, nearly all plans of any size are set up in conformity with the requirements for tax exemption. One of these requirements is that the employer must segregate, irrevocably from other company funds, any funds that are set aside in a tax-free trust. The employer who would like to recover funds set aside for pensioners faces tax disadvantages great enough to discourage him—unless, of course, he is a corporate raider.

Union as a weapon

But this does not guarantee that an employer will continue to pay into the pension trust at the same rate at which he began. Furthermore, the employer who can show valid reasons for his action will be allowed to terminate a plan without being taxed for previous contributions. He cannot, of course, recover these contributions.

The power of his union is perhaps the strongest weapon the employee has in seeking to protect his pension plan. But union contracts are subject to renegotiation and, in times of economic depression, an employer might convince the union that he is unable to meet pension obligations at the current rate. Circumstances might thus force the union to agree to a lessening of pension contributions, thereby jeopardizing the workers' expectations.

The federal and state legislation thus far enacted in the pension field is aimed only at the prevention of fraud or the looting of trust fund assets. As yet, few legislatures have attempted to force employers to "fund" pension plans (that is, to lay aside in advance sufficient assets to pay pensions out of the interest they earn) or otherwise guarantee the promises they make. Such legislation would be rather drastic at this time.

But the following legislative provisions have been advocated by Prof. Patterson, a noted expert in the field of insurance: (a) the filing of every pension plan with state authorities,

(b) an examination of the employers' and the trustees' books and records every five years; (c) the inclusion of certain standard provisions in every plan; and (d) a standard of adequacy of funding arrangements.

Certainly, provisions *a* through *c* can be unqualifiedly recommended at the present time. Recommendation *d* is a great deal more controversial. However desirable such a legislative provision might be, it would undoubtedly provoke massive opposition on the part of employers. We might predict, however, that unless employers voluntarily make adequate funding arrangements, some crisis will force such legislation upon them.

We already have the precedent of enforced workmen's compensation insurance. It is therefore not unreasonable to expect that in the future our concept of social utility will advance to the point where we will require an employer to meet a public standard of funding to guarantee payment if he promises pensions to his employees. At present, the employer should be urged to dis-



close adequately the contingent nature of pension promises. But it is unlikely that the average employee would sufficiently realize the nature of these contingencies. For this reason it may in the end be necessary to require funding by law.

One of the greatest factors militating against the security of an employee's pension is the fact that many pension plans do not provide vesting rights—that is, they do not guarantee that an employee will receive pension money at retirement

if he has left his employment earlier. In the so-called vested plan the employer, as a matter of practical necessity, has to set aside enough funds to guarantee payment for pension credits as they accrue.

A recent study made by the Department of Health, Education and Welfare indicates that during the 1950s there was an increase in the proportion of employees covered by vested plans. But, even so, in the late 1950s about half of all employees with pension coverage were in plans which did not provide any way for them to take their pension credits with them on leaving their jobs.

Institution of vesting

The institution of vesting would solve at a stroke many of the problems we have discussed. Thus, if a firm found it necessary to terminate its pension plan because of financial difficulties, merger or sale of the corporation, each employee would be guaranteed pension benefits in proportion to his salary and the time he had worked for the company.

Unfortunately, vesting is not prevalent enough yet. An Internal Revenue study shows that probably less than one-third of all employees with pension coverage in the late 1950s could obtain vested rights after 10 years of service. It is common even in those plans which do have vesting to require the employee to remain with the company for a certain number of years before his rights to pension benefits begin to vest. This is reasonable, but a period of more than 10 years ties an employee to his job for too long a time before he can leave and take his pension credits with him.

Vesting of benefits would give the employee certain rights in a pension fund long before the age of retirement. Most courts now hold that before retirement an employee has no actual right to receive anything from the employer and, therefore, cannot sue. But if a pension plan were vested, an employee would be provided with a much stronger legal argument to enforce his rights. This is a problem the courts must still work out.

Probably the basic argument in favor of the employer's right to terminate a pension plan is that, since he was under no obligation to

begin the pension plan, he should be under no obligation to continue it. There might be some merit to this contention were it not true that, in issuing a pension plan brochure, the employer invites his workers to rely upon his promise to provide future security.

Furthermore, the pension which an employer intends to provide is considered part of an employee's compensation. He earns his pension while he works. This is readily

apparent when we consider that labor negotiations now result in a so-called "package" made up of an increase in wages, plus an increase in pension promises. In the modern labor situation it can no longer be argued that pensions are a gratuity; they are really deferred wages.

If we criticize certain aspects of the pension movement we are not disparaging the movement as a whole. It is excellent in conception and it will be beneficial in its effects.

To find fault with the pension system is merely to recognize that it has grown too fast for the adequate development of legal safeguards. It would be a mistake to feel that because there are some impressive billions under our corporate mattresses we can now rest easy. The job will not be finished until we have integrated this new giant into our economic system and until we have guaranteed the promises already made to millions. ■

National parks and forests

Public Policy for the Great Outdoors

by **GEORGE R. HALL**

■ THE National Park Service and the U.S. Forest Service, like two Indian tribes arguing over a hunting ground, are in dispute over the nature of the government's responsibility toward the provision of outdoor recreational facilities, and how this responsibility should be carried out. For some years there has been skirmishing over federal policy toward outdoor recreation and natural resource management. The feuding has taken place in the public press, Congress, the Department of Agriculture (which houses the Forest Service) and the Department of the Interior (which houses the National Park Service).

The Forest Service administers some 84.8 million acres of public land and is the older of the two agencies. The first national forests (then called forest reserves) were established around 1890. They now comprise about four per cent of the land in the continental United States. The Forest Service's aim has always been the wise use of forest resources. It has sought to manage the land so as to obtain the greatest possible amount of commercial and noncommercial goods and services.

The National Park Service was not established until 1916, though its origins go back 10 years before that date. The park system, which now covers about 24.4 million acres,

was established to remove areas of particular beauty or interest from commercial use. The argument for the national park system has always been that there are certain regions that should be *preserved* as a type of museum and managed so as to maintain, as much as possible, the natural features.

Recreation has always been the most important use to which the national parks have been put. But the most important uses of the national forests, if measured by revenue, have been for timber and grazing. However, the high level of prosperity since World War II has greatly increased the demand for outdoor recreation in both forests and parks. High birth rates and economic growth make it almost certain that this demand will increase substantially in the next 50 years.

A recent study by Marion Clawson, R. Burnell Held and Charles H. Stoddard titled *Land for the Future* points up this problem. They estimate that in 1956 there were 116 million visits made to "resource-based facilities"—which include national forests, national parks and federal wildlife refuges. In the year 2000, they project that there may be five billion visits. Numerical estimates of this sort, naturally, require great homage to the patron saint of statisticians—St. Luck. Still, regard-

less of what the actual figures turn out to be, it is certain that the public's desire for recreational facilities will increase.

A large share of outdoor recreation must take place on public land since about one-quarter of all land in the continental United States (including many areas particularly suitable for camping, hunting and fishing) is government-owned. And here we come to the point of the argument between the Forest Service and the Park Service.

The position of the Forest Service is that outdoor recreation, along with timber, grazing, protection for watersheds and wildlife, are all important uses of forest land. Richard E. McArdle, Chief of the Forest Service, staunchly argues that no one use should be regarded as having overriding importance.

What is needed, he asserts, is "multiple-use" management of forest land in order that the forests may serve the public interest to the greatest possible degree. No general overall priority should be established among the various uses. Recreation should be regarded, in general, as no more or less important than timber, wildlife, etc. This approach implies that many forest areas will be used for several purposes. That is, on one plot of land some timber may be harvested, some wildlife raised and

some recreational facilities maintained.

The Park Service, in contrast, advocates a "dominant-use" approach to resource management. The argument it presents is that each area of land should be devoted to the product for which it is best suited. Only "compatible" products—that is, noncompeting products—should be produced on the same area of land.

If, for instance, in an area best suited for timber, wildlife could be raised with no loss of timber productivity, the two activities should be combined. If, however, the installation of recreational facilities—say a camp ground—would lower timber yields, this use should be excluded. This reasoning also works the other way. If timber production would lower the recreation benefits of a good recreation area, then lumbering should be excluded. This argument is usually coupled with the proposal that recreation areas be turned over to "recreation specialists"—i.e., the Park Service.

Source of friction

The issue which generates the most heat between the two agencies is the establishment of wilderness areas. Among conservationists, naturalists and outdoorsmen there is great concern lest the economic development of the country wipe out all wild areas. Many have pointed out that a vital part of the American heritage is the ability to "get away from it all" in virgin forests or regions of natural scenic beauty. Nevertheless, the amount of such wild or wilderness land is steadily shrinking. This fact has stimulated a movement to set aside many more areas to be maintained in their natural state. Wilderness areas, by definition, would only be used for the enjoyment of natural beauty. One could hardly have a logging operation and a trailer park in a wilderness zone.

The Forest Service has not opposed the principle of wilderness areas and has, indeed, established many zones in the national forests which are only for recreation. One of the best known of these is the Canoe Boundary Area of the Superior National Forest in Wisconsin. This area contains 509 square miles of forest land and has no roads,

commercial logging camps, resorts or summer homes.

But as such areas comprise only about five per cent of all federal lands, strong pressure is being exerted from many quarters to increase the number and size of wilderness zones. Since 1956 bills have been introduced in Congress that would establish a system of wilderness areas. The most recent of these (S. 174) was introduced in January, 1961 by Sen. Clinton P. Anderson (D-N. Mex.). President Kennedy endorsed this bill in his message to Congress on natural resources delivered on February 23, 1961. Regardless of the fate of Sen. Anderson's bill, it is clear that we will hear much more about this issue.

While the Forest Service maintains a number of wilderness zones in the national forests, it has been less than enthusiastic about any large increase in the amount of land devoted to a single use. Setting aside large tracts of land as wilderness zones would be incompatible with the strong desire of the Forest Service to promote the *maximum use* of all forest land and would violate a basic doctrine of foresters which holds that resources should not be "locked up."

"Locking up," nevertheless, is necessary to have certain types of recreation. Discussion of this point is confused because the term "outdoor recreation" covers a variety of experiences. A trip to a municipal swimming pool or a cookout at a

picnic table beside a turnpike are forms of recreation. Likewise, a two-week packtrip by horseback in the Rocky Mountains is a form of recreation. Obviously, the facilities required for the packtrip are quite different from those required for the other forms of recreation. To put this distinction in another fashion, some recreation requires *developed* resources while other recreation requires *nondeveloped* resources. As a result, what to one person is the "locking up" of resources is to another person the essential ingredient for sound management of the resources.

Integrated uses

Recreation of the developed type usually can be integrated with other forest uses. For example, a strip of trees can be left along a highway to provide scenic views for motorists. At the same time, picnic facilities can be built, timber can be cut (although care must be taken to keep enough trees for scenic views), the wildlife habitat can be improved and watershed management provided. All of these subsidiary uses of the roadside zone, however, mean changing the natural composition of the area. Were the land in question to be maintained as a "wild zone," it could not be used for any purpose other than wilderness recreation.

Consequently, much of the battle over outdoor recreation can be thought of as a fight between those promoting recreation requiring nondeveloped resources and those promoting recreation requiring developed resources which can be used for other purposes as well.

In 1960 the Forest Service entered the legislative arena by sponsoring Public Law 86-517, popularly known as the Multiple Use Act. This law is short; its main provisions are a statement of the purposes of the national forests and a declaration that they should be managed under "multiple-use" and "sustained-yield" principles. "Sustained-yield" management was defined as maintaining a high level of output of forest products while, at the same time, preserving the productivity of the land.

Congress declared that the national forests were to be used for outdoor recreation, grazing, watershed protection and the production





of timber, wildlife and fish. At the hearings on the bill it was emphasized that the order in which these uses were listed implied no pride of place. All uses, it was asserted, should have equal priority, except that local needs should receive special consideration.

It is important to note that the Forest Service maintained that the Act would in no way change its current policies and programs. The purpose of the bill was to clarify and define procedures and give the Forest Service a clear legal mandate for them. On a more practical political plane it is obvious that the Forest Service wished to protect itself from the pressures of sportsmen's groups, naturalists and others pushing for more emphasis on recreation in the national forests and less on timber production, grazing and other uses.

Continued debate

The Multiple Use Act, however, will not end the controversy. We can expect continued debate within and without the federal government over outdoor recreation in the forests. As with most debates, it is hard to separate the wheat of real issues from the chaff of tactical arguments. Nevertheless, as I have already indicated, several issues of real importance stand out.

The first is the question of how much recreation the federal government should provide. Our public parks, camp grounds and other facilities are now crowded. Many recreation areas have become run-down and unsanitary. One shudders at the thought of what the situation will be by the year 2000 unless extensive investment is undertaken.

True, both the National Park Service and the Forest Service have

been refurbishing old recreational facilities and building new ones. This does not solve the problem, however, as demand for facilities is increasing faster than they are being built. On the other hand, since public funds are urgently needed for national defense, urban redevelopment, school construction, water development and a host of other projects, there is some question as to how much public money should be or can be devoted to recreation.

The second issue of importance concerns the kind of recreational facilities that should be developed. By its very nature a wilderness contains enough land so that one visitor does not bump into another every time he rounds a bend on a trail. But the development of boating, swimming, skiing and similar facilities allows many more people to use the same amount of land. Consequently, we face the problem of deciding how much money should go into the wilderness type of recreation and how much into more developed forms.

Subsidiary to this issue is the question of who should pay for the recreational facilities on public lands. The present practice is to charge only nominal fees for the use of these facilities. Usually only the costs of collecting the fees, policing the area, cleaning up and similar expenses are covered. These charges are far below the total costs of managing the facilities or the fees that would be charged by private entrepreneurs. It has usually been maintained that all people, regardless of income, should have ready access to public recreational facilities. However, should we continue to provide millions of dollars of subsidies to users of public recreation?

This question often comes to my mind when I go through the parking lot at a public park and see many expensive cars with license plates from all over the country. Obviously a great deal of money is spent on outings. One wonders whether the government should not receive a larger share of this money.

Also closely related to the question of the kind of recreational activities that should be developed is the issue of multiple-use management vs. dominant-use management of public parks and forests. Combining timber production, for example, with recreation will mean a decrease in the recreational benefits of an area but will increase the public benefits from the timber. On the other hand, the quality or kind of recreational experience changes when the land is also put to other uses. Hunting or camping in a heavily logged area is a different experience from hunting or camping in a virgin forest. In short, there is a problem of balancing recreational quality with the need for timber, water and other forest products.

Another issue is how the public agencies involved in recreation should be organized. The Forest Service is building up a staff of specialists in recreation management, wildlife biology, watershed protection and other professions concerned with multiple-use forest management. This means that the Forest Service is becoming less and less an agency specializing in timber management and more and more an agency concerned with all phases of resource management.

Combined operation

Many observers feel that it would be better to organize federal agencies on the basis of specialized responsibilities or professions. For example, the Park Service might hire all recreation specialists. The Fish and Wildlife Service might hire all biologists and wildlife management experts. This would require that personnel from separate agencies would be combined at an operating level.

The basic question is whether the various existing agencies should employ specialists in many phases of natural resources management or whether there should be separate

agencies for each field of specialization. Regardless of the method of organization chosen, the administration and coordination of natural resource policies would be greatly facilitated if they were centralized in one Department of Natural Resources instead of being divided among many departments as at present.

In 1958 Congress created the Outdoor Recreation Resources Review

Commission to study these and other issues connected with the government's responsibility toward recreation. The Commission's report is due in September of this year and will deserve the attention of all citizens. It is the nature of study groups of this sort that they seldom provide answers, but if successful, they forcefully and clearly present the relevant questions.

We can expect that the future will

see much more political dispute over recreation and forests. The battle over the government's responsibility here goes far beyond the bickering between administrative agencies. The outcome of the current debate over natural resources management does not only concern the specialist. It is of vital interest to every citizen, for it concerns the future of our natural wealth and the enrichment of our leisure. ■

Labor and free trade

Erosion of an Ideal

by PHILIP TAFT

■ AS FOREIGN COMPETITION mounts, the American labor movement finds itself in a dilemma on the tariff question. On the one hand is its deeply founded predisposition toward free trade; on the other are the bread-and-butter interests of many of its members.

A brief look at history shows that this conflict is not new. In the 19th century one of the protectionist arguments was that tariffs were needed to protect the high wages of American workers against the competition of low wages in Europe. The views of particular groups of American workers, however, depended on the position they found themselves in in their own markets. Workers were inclined to be influenced by their own experience, and the early leaders of organized labor reacted like their members to the tariff question.

A dispute over free trade marked the founding convention of the American Federation of Labor in 1886. John Jarrett, the head of the then powerful and strongly protectionist Amalgamated Association of Iron and Steel Workers, sought to have the new Federation committed to a high tariff. But despite his insistence, the A. F. of L. decided to support free trade as a general policy. The Federation, however,

avored tariffs under certain circumstances—when it was shown that a tariff would improve the competitive position of specific groups of workers, protect their jobs or prevent so-called unfair foreign competition.

Though free trade was its official doctrine, the American Federation of Labor was never dominated by a monolithic view. A number of unions—the pottery, and boot and shoe workers were among the more important—always favored tariff protection for their industries. And Matthew Woll, one of the more influential leaders of the American labor movement who was for years a vice president of the A. F. of L., also headed the Wage Earners' Protective League, which favored increased tariffs on a variety of products. In brief, the Federation opposed protectionism but allowed its constituent unions to espouse specific tariffs if they felt that foreign competition posed a threat to their membership.

The Congress of Industrial Organizations, like its erstwhile rival, also supported free trade. In addition, both federations always favored international cooperation with the unions of foreign countries and among the nations of the world. Indeed, Samuel Gompers, the father

of the A. F. of L., can also be regarded as the father of the International Labor Organization, founded after World War I as an autonomous part of the League of Nations. Through the ILO, which U.S. labor has always supported, efforts were made to establish standards for wages and working conditions for the industries of the world, and to eliminate what might be regarded as unfair competitive practices. These aims are still being pursued throughout this international agency.

Close relations between the unions of Europe and the United States were developed during World War II. And, in the 1940s, American labor organizations supported the economic and political revival of Europe through the Marshall Plan. Moreover, they cooperated wholeheartedly in the effort to raise the productivity of European labor. At that time the ranks of U.S. labor firmly believed that the position of the vast majority of American workers was secure and that American know-how and industry, by and large, could meet European competition.

In 1949 the Amalgamated Clothing Workers of America, which is now demanding protection against Japanese imports, called upon Congress to approve the extension of the Reciprocal Trade Agreements Act. The union expressed its position in these words: "Large foreign trade means greater production here in America with the ensuing greater employment and higher standards of living. Limiting our foreign market for any product means limiting the market, both foreign and domestic, for all goods and services." This statement was endorsed by

Emil Rieve, the elder statesman of the Textile Workers of America, another union which has since found foreign competition a threat to the jobs of its members.

The about-face on the part of these two important unions illustrates the fact that the protectionism vs. free trade debate is again generating much heat in union circles. As early as 1950, the A.F. of L. was compelled to soften its endorsement of free trade to the extent of disapproving of imports which "derive their competitive advantage from low wages prevailing abroad."

Call for safeguards

The following year the A. F. of L. approved the renewal of the Reciprocal Trade Agreements Act. But it also called for the safeguarding of American labor in some industries, especially those where wages were a relatively heavy factor in the cost of production and where low wages abroad threatened to undermine American labor standards.

But this position again had to be revised as the composition of American imports began to change. No longer were the products of foreign labor-intensive and low-wage industries necessarily the ones which competed most effectively with American goods in the United States. For instance, some foreign machine tools and steel products began to sell successfully in the United States.

The pronouncements and policies of the Federation and its affiliates were the inevitably affected by the increasing competition of foreign producers, the greater variety of products imported and the larger number of workers affected by such competition. Consequently, the old A. F. of L. was forced to recognize, in 1953, that the increasing volume of imports was creating dissatisfaction with the reciprocal trade agreements. For the first time, the A. F. of L. approved the existing peril point formula in the administering of tariff schedules. According to this formula, the duty on a specific product is not to be lowered if the new rate imperils the existence of domestic producers.

The Federation also endorsed the policy of including an escape clause in trade agreements made by the U.S. Under the escape clause, duties

which had been reduced could be restored to their former levels, if increased imports under the lowered rates caused or threatened to cause serious injury to a domestic industry.

Thus it can be seen that, during the 1950s, the A. F. of L. retreated somewhat from its traditional free trade position.

The changing composition of imports soon began to affect industries which had traditionally been largely immune to foreign competition. Thus, leaders of the textile unions began to alter their views on free trade as woollens and worsteds from England and cottons from Japan started to flood the American market.

Soon afterward the leaders of the needle trades' unions left the free trade camp. They turned into militant protectionists as a result of competition from foreign producers of men's suits, hat bodies and women's cotton dresses. One of the needle trades' unions went so far as to plan a boycott of Japanese wool-

income as a consequence of Japanese imports.

As unionized sectors of the economy are increasingly affected by foreign competition, drastic changes in the attitudes of the members and leadership are almost inevitable. A labor union cannot regard with complacency the loss of thousands of jobs by its members, although its leaders may recognize intellectually that a free trade policy is desirable for the country at large.

But it is easier for the national leaders of the AFL-CIO to take a "statesmanlike" view of such matters than it is for heads of specific unions. This is true because the national federation leaders are less affected by the demands of particular sectors of labor. The pressures from workers seeking protection can be offset by pressures from workers in the export trades. In addition, there are, of course, many unions which are not immediately affected one way or another by tariff laws. These unions would be inclined to go along with the views of the federation leaders.

Nevertheless, as support for higher tariffs builds up, the national leaders find their free trade position under increasing criticism from below. A leader of a union facing serious foreign competition is in an even more difficult position. He must be cognizant of the difficulties facing the industry. Not only future gains but present employment is at stake, and a labor leader whose members have lost their jobs because of foreign competition—or any other reason—is like a general who has lost his army. Not altogether relevant to his situation are arguments about the beneficial effects of permitting the most extensive division of international labor and the concentration by each country upon those employments in which it has a comparative advantage.

Moreover, more and more union leaders are realizing the implications of the fact that productivity in Western Europe and Japan is rising at least as fast or perhaps faster than in America. They foresee the possibility that these countries will compete with increasing effectiveness in the U.S. market.

Solomon Barkin, Research Director of the Textile Workers Union

THE DIMINISHING TARIFF

THE PROGRESSIVE EROSION of the tariff wall is clearly indicated by the figures on the average tariff rate on dutiable imports. From 1931 to 1935 this rate was at an all-time high of 50.02 per cent, as a result of the Hawley-Smoot Tariff Act of 1930. However, since the Reciprocal Trade Agreements Act of 1934 was passed, the average rate has steadily declined—to 37.87 per cent (1936-40); 32.13 per cent (1941-45); 16.03 per cent (1946-50). Since 1950 the average rate on dutiable imports has fluctuated between 10.79 and 12.69 per cent.

ens to be launched on May 1, 1961. It was dissuaded from such a step only by the plea of President Kennedy. Similarly, a local of the International Brotherhood of Electrical Workers, with more than 10,000 members, boycotted all electronic equipment produced in Japan, but later rescinded its action. In fairness to these unions, it must be noted that their members are suffering severe unemployment and loss of

and a leading writer on trade union questions, has summed up the situation: "No trade unionist directly concerned with a particular group of industries or occupations can stand by idly and play down his concern for his own members or for employees generally in the present period of high unemployment. In the face of the current difficulties of finding new jobs and adjusting workers to them, even the national trade union organization, however much it is disposed to a liberal trade position, is under compulsion to insist on controls of trade which limit the growth of imports so as not seriously to injure domestic industries."

At the last convention of the AFL-CIO, a majority of the delegates endorsed the reciprocal trade agreements program. But the resolution of approval urged "in the administration of the escape clause procedure that maximum emphasis be placed on safeguarding absolute historic levels of domestic production so as to prevent drastic production cutbacks or employment displacement in domestic industries as a result of sudden large influxes of competing imports."

Moreover, the impact of foreign competition upon industries and

give those distressed areas that are adversely affected by foreign competition priority in obtaining federal financial assistance under the recent depressed areas law. But many workers and industries that suffer from foreign competition are not located in depressed areas. The federation proposes that the government also give assistance in these cases.

Their plan is that workers who lose their jobs because of imports should be allowed supplementary unemployment benefits, earlier retirement under the Social Security Act, retraining for new kinds of employment and, if necessary, transportation for themselves and their families to places where there are job opportunities. Government loans would be made available to enterprises and communities adversely affected by lower tariffs. Technical information and tax concessions for affected industries would also be provided under the federation's program.

Competitive advantage

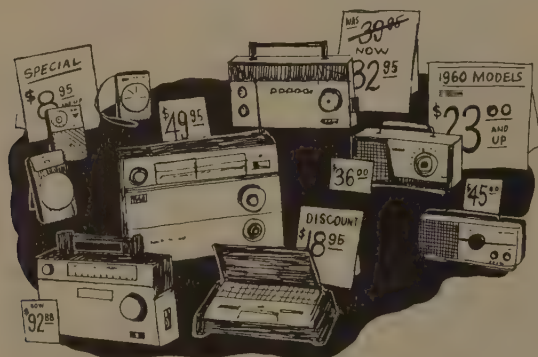
The federation is, of course, extremely concerned with the lower labor standards which prevail in foreign countries. Its view is that fair labor standards would mean

Moreover, if low wages merely reflect the low productivity of labor in a country, restricting its exports would neither profit the workers of that country nor help raise their wages. The federation realizes that this difficulty is inherent in proposals (such as were made by the Randall Commission, appointed by the President in 1954) that no tariff concessions be granted if wages received by workers of the exporting country are substantially below those paid in the United States.

Another proposal is that tariff concessions should only be made by the United States if the exporting country agrees to raise its wages by a given amount over a period of years. In that fashion wages paid to workers producing exports in a particular foreign country would be brought up, in time, to United States levels. This policy might, of course, eliminate the cost advantages of the exporting country and reduce the volume of trade between it and the United States. Such a result would be especially likely if the competitive advantage of the exporting country were largely based upon lower wage payments. But it would be impossible to separate wages in industries producing for the home market from those producing for export. One could not be increased without the other.

All of these suggestions are a response to the pressure of increasing foreign competition. Historically devoted to the doctrine of free trade, the American labor movement finds itself engulfed by demands from large and influential unions for a revision of its position. In a number of instances these unions themselves were, in the past, advocates of free trade.

The loss of support for free trade by influential groups within the labor movement may compel the federation to abandon, in fact if not in theory, its historic position and move closer to the protectionist view. The shift may also generate added support to those representatives in Congress who in the past have favored protectionist policies. As a consequence, the reciprocal trade agreements program may encounter its most serious opposition when it comes up for renewal two years hence. ■



workers has led the AFL-CIO to recommend a plan for mitigating its effects. Recognizing that freer trade is necessary for promoting a higher standard of living, the federation proposes a trade adjustment program. This would transfer some of the costs of increased imports from the shoulders of those upon whom they fall directly.

The federation's program would

that no country would be allowed to gain a competitive advantage by exploiting labor. There is no universal agreement, however, of the meaning of exploitation of labor. It is, therefore, difficult to enforce fair labor standards. Indeed, because of differing social and economic conditions, there is no practical way to adequately compare the wage standards of different countries.

Why Are Defaults Increasing?

by **ROBERT C. COLWELL**

■ FOR MILLIONS of Americans "buy now and pay later" has become part of their way of life. Houses, automobiles, boats, lawn mowers, college educations—even trips to Europe—are financed through a massive structure of credit. Under these circumstances those who take the economic pulse of the nation naturally watch for any indications that credit is being granted too freely. A rise in the rate of defaults always calls for explanation. Are there, then, any reasons to be concerned at this time about this mournful subject?

Consumer credit is relatively short term, while most mortgages are long term. Thus, it is not surprising that defaults on these two types of credit have shown different trends.

Delinquencies on consumer credit extended by banks have risen during each of the four recessions since World War II. The increase in the number of loans on which payment is 60 days or more in arrears has been closely related to rising unemployment. All major types of installment debt have shown this trend: automobile, appliance, home improvement and personal loans. But soon after unemployment has begun to shrink, defaults have declined.

However, from the end of the war through the Fifties, the trend of consumer credit delinquency rates was downward. The peak in each succeeding recession was lower than the previous peak, and each recovery in employment saw the rate of defaults fall to a new low point.

During the latest recessions delinquency rates began to rise at about the same point in the business cycle as they did in the two previous recessions. But by the early months of 1961 delinquency rates were somewhat higher than they were at the equivalent point in the 1957-58 recession. Nevertheless, the rates are lower this year than they were at

Though the author of this article is a member of the staff of the Council of Economic Advisers, the views he expresses here are his own and not necessarily those of the Council or of any other agency of the federal government.

the corresponding places in the 1948-49 and 1953-54 recessions. Unless the future brings about a further but unforeseen increase of delinquencies, there is no reason to expect that there has been a reversal of the long-term trend of progressive improvement in the quality of consumer credit.

When we turn our attention to mortgages, we find that home loan defaults have moved in the opposite direction from consumer credit defaults. Since 1946 the number of foreclosures on nonfarm homes has risen each year, except for a moderate decline during the Korean conflict in 1951 and 1952. From a low of 10,500 in 1946 and 1947, the annual rate rose to 21,500 in 1950 and 1953, to 31,000 in 1956, and to 51,000 in 1960.

This fivefold increase in 14 years calls for further examination and for an appraisal of its significance. Is home ownership becoming increasingly vulnerable to the impact of cyclical unemployment? Or was the rise caused by changes in the terms of mortgage lending? Has the stabilization or gradual decline in market prices of existing houses led to more foreclosures? What are the limits to the risk that private investors can assume in competing for loans? And at what point can public policy find a balance between the gains that flow from better housing and the losses that accrue from defaulted debts?

If these questions can be answered, the policies of lenders and underwriters may be reoriented to curtail

the risks that are avoidable and to compensate for those that are not. And public policies may be framed to get the maximum economic gains from government and private action in regard to mortgages. At the same time, of course, the government should take into consideration the allocation of resources to other social needs.

To get a perspective on recent foreclosure trends, let us compare the postwar period with the 15 years preceding Pearl Harbor. In 1926, the earliest year for which published estimates are available, there were some 68,000 foreclosures. After 1926, well before the onset of the Great Depression, the volume rose rapidly. In 1929 some 135,000 homes were lost, and this figure mounted to 150,000 in 1930. Foreclosures zoomed upward in the next three years and exceeded 250,000 in 1933 at the bottom of the depression.

In this dismal period of falling incomes, massive unemployment and scarcity of loanable funds, forced sales demolished the structure of real estate prices, disrupted the housing markets and caused widespread insolvency among institutions with heavy investments in home mortgages. Some relief came from moratorium laws enacted in many states, and the Home Owners Loan Corporation gave federal assistance in refinancing a million defaulted mortgages.

The annual volume of foreclosures declined after 1933, but nearly two million families lost their homes through legal action during the decade of the Thirties. Moreover, there were uncounted cases—possibly another million—where homeowners voluntarily transferred their titles to their creditors in lieu of foreclosure.

The structure of home mortgage debt collapsed during the depression years because the lending practices in the boom years of the Twenties were incompatible with the conditions that followed. At that time most first mortgages were made for terms of three or five years, and called for only partial, if any, repayment of principal before maturity. Monthly payment loans that ran for long periods were the exception rather than the rule. The loans were seldom made for more than one-half or two-thirds of the

value of a house. Thus, when purchasers could not make very large down payments, second and even third mortgages were necessary. This structure of mortgage debt depended largely upon continuous refinancing. Inevitably it collapsed when financial panic caused many lenders to want their loans repaid in cash and real estate equities vanished in falling markets.

Changed picture

The mortgage picture since the end of World War II is markedly different from that of the Twenties and the depression years.

First, a record number of about 20 million new houses have been built and most were purchased with the aid of a mortgage.

Second, long-term monthly payment loans have largely replaced the short-term financing of the predepression period. The Home Owners Loan Corporation successfully made its loans on 15-year terms, and both the Federal Housing Administration and the Veterans' Administration on a 20-year basis. Later these terms were extended to 25 years and then to 30 years.

Third, the minimum down payments required in connection with the longer term loans became small enough so that second mortgages presumably would not be required. At the outset, G.I. loans guaranteed by the Veterans' Administration were permitted to be as large as 100 per cent of reasonable value. Down payments in connection with FHA-insured loans have been progressively reduced, and since 1957 as little as three per cent has been necessary on low- and moderate-priced homes.

Fourth, the decade following the end of the war saw the resale values of houses rise steadily. This was largely due to the shortage of shelter coupled with the widespread demand resulting from ample supplies of mortgage credit under VA and FHA terms. The market value of houses built before 1950 rose an estimated 33 per cent between 1950 and the end of 1956; even larger increases between 1945 and 1949 were reported in surveys.

Unemployment has led to many mortgage delinquencies during the postwar period. However, changes in the volume of unemployment

have not promptly caused measurable changes in the number of foreclosures—for several reasons.

First, mortgage defaults stem from a wide variety of causes. Initial delinquencies are often caused by carelessness in making payments on time, poor management of income, and family emergencies as well as by a drop in income. The very nature of many of these problems permits about nine out of 10 delinquencies to be cured.

But in cases where a serious default develops—usually of 90 days or more—the list of reasons is somewhat different. Early studies by the Veterans' Administration have shown that noneconomic causes—including death, illness, domestic difficulties, improper regard for obligations and dissatisfaction with the house—lead to at least as many foreclosures as do reductions in family incomes because of unemployment.

Second, foreclosure is often avoided despite sizable arrears on payments where the equity of the owner is larger than the legal and other costs of selling the house. An active local demand for houses is usually needed to permit timely sales, for

on the laws of the state where the property is located. Published statistics on foreclosures are based on the completion of legal action, a step normally reached several months after mortgage delinquency began.

Thus, it is not surprising that there is seldom a statistical parallel between foreclosures and other economic phenomena, even though delinquencies may have originated from changes in economic conditions. During the postwar period recessions have not been so severe or of long enough duration to reveal a correlation between rising unemployment and an acceleration in foreclosures.

The number of foreclosures does not provide an accurate measure of their economic impact, since the number of mortgaged houses has increased greatly in the postwar period. The ideal statistical measure of the incidence of foreclosures would relate the number of completed legal actions to the number of homes whose mortgages were in the "danger zone."

Serious defaults are most likely to arise between the end of the first year and the end of the fifth or sixth

FORECLOSURES, 1950-60
(PER 1,000 NONFARM MORTGAGED HOMES)



sluggish markets afford little opportunity to salvage equities. Many lenders extend some measure of forbearance before starting legal action, particularly where there is a prospect of restoring the loan to good standing. Even where such efforts fail, several months may elapse between the initial delinquency and the exhaustion of forbearance.

Finally, the process of foreclosure takes considerable time, depending

year of the mortgage. This observation is based on experience with insured and guaranteed loans during the first postwar decade when the average mortgage matured in about 25 years.

Defaults in the first year are not frequent because, if income prospects had not appeared satisfactory at the time of purchase, the loans would not have been made. During the second year the risk of default

risers sharply; it reaches a peak during the third year and then declines as the payments progressively reduce the remaining debt. By the end of the fifth or sixth year the debt has been sufficiently reduced so that the owner's equity is greater than the normal expenses of selling the house after allowing a modest amount for depreciation. When a mortgage is for a longer period, or when the house depreciates more quickly, the owner's equity grows more slowly and the risk of foreclosure remains for a longer time.

Until data are available on the number of outstanding home loans in the "danger zone," there can be no ideal statistical measure of the incidence of foreclosures. However, a useful index can be computed by using estimates (starting with 1950) made by the Federal Home Loan Bank Board of the number of mortgaged homes. When we compare the estimates of the number of mortgaged houses with the number of foreclosures, we have a foreclosure rate. This rate rose more slowly than did the absolute number of foreclosures.

In 1950 the rate per 1,000 dwelling units was 1.72. It then declined under the economic impact of the Korean conflict to 1.32 in 1952. Thereafter, the incidence of foreclosure rose for six years, reaching a rate of 2.35 in the recession year of 1958. After a pause in 1959, another increase brought the rate in 1960 to 2.6, about twice as high as in 1952. It has been estimated, however, that in 1926 the incidence of foreclosure was more than four times as great as in 1960.

Thus, it is clear that we have no cause to fear that a situation is developing similar to that in the pre-depression period. Nevertheless, it is helpful to review the conditions responsible for the rise in the foreclosure rate during the past decade. Three separate changes in the housing and mortgage markets account for most of the recent increase.

First, a rise in market prices for existing houses commenced with the demobilization of World War II veterans. This rise tapered off around 1955 and came to a halt in many cities by 1957. In the last few years the prices of older houses have begun to decline; also it is less usual

for houses built since the end of the Korean conflict to sell for more than they cost. What has happened is that prices of houses have ceased to rise because of inflation in real estate prices; instead, they are depreciating in value over the years as they grow older. This development has removed one of the props that formerly kept many serious defaults from turning into foreclosures.

Second, the trend toward smaller down payments and longer loan maturities has curtailed the size of owners' equities during the early years of their mortgages. This has lengthened the span of the "danger zone" and, consequently, more loans are in it. Thus, lenders have less reason to extend forbearance until family incomes rise sufficiently to wipe out the default; also, when the equity is small, owners have fewer opportunities to negotiate a sale in place of a foreclosure.

Third, a resurgence of second mortgage financing since 1955 has also raised the likelihood that foreclosure will follow delinquencies. Grebler and Gillies, two economists at U.C.L.A., have made a study of mortgage financing in Los Angeles county. They found that during 1959 and the first half of 1960 the rate of foreclosures was three and one-third times greater for houses with second mortgages as for those with only first mortgages. Although nationwide data are not available on the use of second mortgages, reports from industry sources indicate that they have become more frequent in recent years.

End of an era

In retrospect, it appears that the last years of the Fifties saw the closing of an era in mortgage lending. The housing shortage that accumulated during the Forties has been eliminated. The inflationary pressures on prices of existing dwellings have eased. And the age composition of the population has shifted. All these developments have changed the structure of housing demand. Mortgage lending in the Sixties will be based on different conditions and different markets.

What factors will govern the risk of foreclosure in the years ahead? Some conclusions may be drawn from the record of both the Thirties

and the Fifties. One is that before the optimum size of initial down payments and the rate of debt reduction can be determined, the outlook for future changes in the market price of mortgaged homes must be taken into consideration. If housing prices should rise appreciably, as they did after World War II, the size of the equity created by payments will be of minor importance. But if ordinary or accelerated depreciation should reduce future sales prices, the only source of protection against foreclosure will come from debt reduction.

Another conclusion is that if future business recessions will last only about a year, and if the accompanying drop in employment will be only two or three per cent of the labor force, the nationwide incidence of foreclosures will not be much affected. The corollary, however, is that the rise in foreclosures will be more noticeable in the industrial areas where employment drops sharply during recessions as well as in places where jobs are abolished by technological change.

Past experience also shows that somewhat greater lending risks than were assumed in the last decade can now be undertaken without impairing the earnings or reserves of lending institutions. But the record does not indicate where the point of diminishing returns will be reached. The housing markets of the Sixties are likely to be somewhat smaller than the postwar markets, and will serve different age and income groups. More people will be able to buy a larger or better house and they will be able to make larger down payments. But until late in the decade demand for small suburban houses is expected to fall.

Rules of thumb have been common in the history of mortgage lending. Property appraisal methods have not depended sufficiently on broad economic judgment. To overcome these handicaps and safely enlarge the volume of housing credit without unduly expanding risks, more statistical knowledge is needed. A sustained and systematic effort by industry and government is required to change uncertainties to probabilities and to improve the quality of decisions in home loan finance. ■



The Antitrust Laws of the U.S.A.: A Study of Competition Enforced by Law. A. D. Neale. 516 pp. New York: Cambridge University Press. \$7.50.

- The U.S. laws dealing with monopolies and restrictive business practices are incomprehensible to many European businessmen who feel that competition is wasteful and something that only the Americans can afford. To remedy this misunderstanding, Mr. Neale, a British civil servant, has written a comprehensive history of the development of the U.S. antitrust laws to convince his countrymen that they may be able to learn a good deal from this uniquely American experience.

The only other country which has a comparable structure of antimonopoly laws is Canada, but, according to the author, the actual enforcement has been far less stringent than in the United States. The book contains an excellent analysis of legal interpretations of the antitrust statutes from the Northern Securities case of 1903 to the recent case against Dupont (the book went to press too early to evaluate the final decision). While Neale addresses himself primarily to Europeans, his book will be revealing to most Americans.

Studies in Economic Development. Edited by Bernard Okun and Richard W. Richardson. 498 pp. New York: Holt, Rinehart and Winston. \$7.00.

- The rising interest in the problem of economic growth in recent years has led to the publication of this collection of 39 readings dealing with this subject. All of the readings have been published previously but, because they are scattered through many books and journals, it has not been an easy task to search them out.

Though primarily addressed to college and graduate students of economics, this book deserves a far wider audience. The topics vary from a broad philosophical discussion of the question of whether economic growth is desirable to a technical treatment of the problems of measurement. The authors

range from Adam Smith to W. W. Rostow.

This volume should be a useful handbook for those interested in the problems of economic development—not only in the underdeveloped areas of the world but in the economically advanced countries as well.

Doctors, Patients & Health Insurance. Herman M. and Anne R. Somers. 576 pp. Washington: The Brookings Institution. \$7.50.

- The current furor over medical care for the aged has focused much attention on the broader question of medical economics in the United States. The authors of this important book have made it their business to find out what is happening in this broad field and to point out the policy decisions necessary to assure better medical care for the nation as a whole.

The authors, both of whom are experts in the field of the social aspects of medicine, accumulate an awesome collection of facts about medical education, hospitals, health insurance—indeed, every aspect of the economics of medical care. They bring out such startling facts as:

- The health and medical bill of the U.S. is over \$25 billion per year.
- Though over 70 per cent of the population has some form of health insurance, this insurance meets only one-fourth of their medical bills.
- "Forty per cent of all medical school students are . . . from families with incomes in the top eight per cent."
- The proportion of gross national product spent on medical care rose from 4.7 per cent in 1955 to 5.4 per cent in 1959 and will probably be seven per cent by 1970.

The authors point out that we are creating a "new hierarchy of medical care privilege" in which "the new elite among medical consumers are those employed by large corporations or government, including the military." They demonstrate that the explosion of medical research demands new methods of organizing and financing medical care.

In their discussion of the roles of government and the private sector in

medical economics, the authors take a scholarly swipe at the policy of the American Medical Association's political doctors. The Somers' also indict much of the popular press for helping to obscure the issue by using misleading phrases like "socialized medicine."

In all, this book throws a flood of light on a vital problem clouded by public ignorance sometimes abetted by misrepresentation.

Growth and Stability of the Postwar Economy. Bert G. Hickman. 426 pp. Washington, D.C.: The Brookings Institution. \$6.00.

- That we have nothing to cheer about over our record of growth in recent years is already well known. But can we congratulate ourselves on knowing how to avoid major depressions? Hickman, a member of the Senior Staff of The Brookings Institution, points out that we should not assume this too readily. He considers that a prolonged and severe depression like that of the Thirties is unlikely, but there is no reason why serious business contractions of lesser magnitude may not occur.

This conclusion results from his detailed examination of the record of the U.S. economy between 1946 and 1958. In this important study, Hickman analyzes the role of key economic factors—including federal spending, consumer and investment demand, growth industries, residential construction and fiscal policy.

Of particular value are 53 statistical tables and 51 charts that together present many of the author's facts and much of his argument.

Joint International Business Ventures. Edited by Wolfgang Friedmann and George Kalmanoff. 558 pp. New York: Columbia University Press. \$15.00.

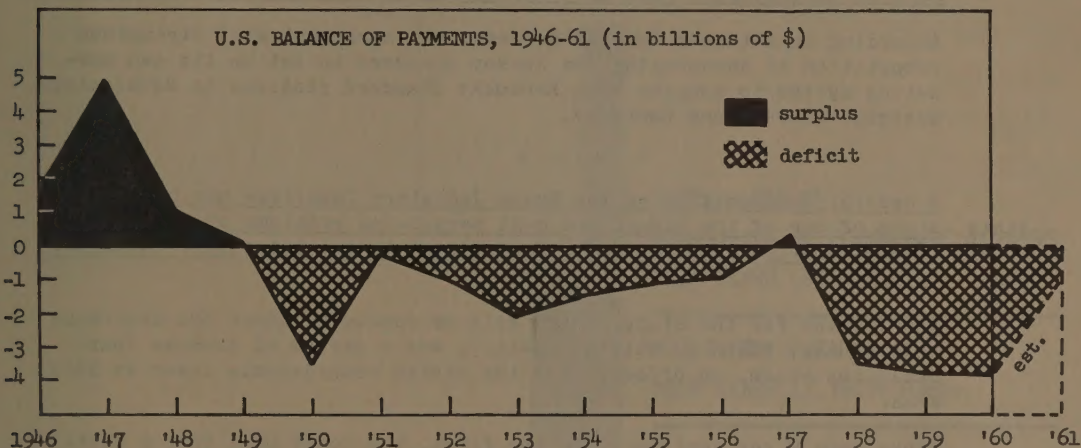
- Since the end of World War II the joint international business venture has become an important means of relating the resources of industrially developed nations to the needs of less-developed countries. Based on data gathered from studies of such ventures in 12 countries, this volume represents the culmination of a four-year research project. It analyzes the problems—of ownership, management and relations between private investors and governmental authorities—involved in joint ventures, and presents 36 specific case studies.

All in all, an interesting appraisal of an important method of international economic cooperation.



THE DOMESTIC ECONOMY—One of the most important economic developments of the first part of 1961 has been the marked improvement in the U.S. balance of payments position.

Although we are still running at a deficit (see graph below), the loss in the first quarter of 1961 was running at an annual rate of about \$1 billion compared with an annual rate of approximately \$5.8 billion in the last quarter of 1960. This was the smallest deficit in the U.S. payments position since the third quarter of 1957.



The principal reason for the sharp improvement in the dollar gap was the significant rise in merchandise exports over imports. This surplus widened to an annual rate of \$6.8 billion in the first quarter of 1961 compared to an annual rate of \$4.9 billion for 1960.

The sharp rise in exports was not confined to any one particular area of the world. There was an increase in U.S. exports to most foreign customers—outstanding exception being Cuba. The types of exports which showed the sharpest rise were heavy machinery and crude foodstuffs.

Another key reason for the narrowing dollar gap was the reduction in the net flow of capital from the U.S. Foreigners borrowed fewer dollars in the U.S. while using more of the dollars they held to purchase U.S. securities.

At the same time, individuals and business firms in the U.S. transferred fewer dollars to foreigners through the purchase of foreign securities and foreign currencies for deposit abroad. This achievement was made possible through the cooperation of foreign central banks who (albeit reluctantly) reduced interest rates to help stop the outflow of capital from the U.S.

Although this recent decline in the gold outflow is certainly encouraging, it does not mean that we have solved the problem. The rise in merchandise exports could be only temporary since the heart of the problem is, of course, the competitiveness of American products on the world market. In addition, capital outflow could again be a serious problem if the Administration and the Federal Reserve felt that lower interest rates were necessary to achieve a desired rate of economic growth.

ECONOMIC NEWS NOTES—In an unusual antitrust settlement, the Standard Oil Co. (Kentucky) has agreed to terminate a 1956 contract under which it bought 80% of its oil requirements from the Standard Oil Co. (New Jersey). In turn, the Justice Department has approved a proposal for Kentucky Standard to merge into the Standard Oil Co. of California.

The 3 Standard Oil companies are currently unaffiliated. Under the merger plan, Kentucky Standard, which is solely an oil marketer, would have a new source of supply and California Standard would have a new marketing area.

This is the first instance in which the government has sought to terminate an antimonopoly case by backing the creation of a larger company.

According to Attorney General Kennedy, the agreement will strengthen competition by encouraging New Jersey Standard to set up its own marketing system to compete with Kentucky Standard stations in Mississippi, Georgia, Alabama and Kentucky.

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A special subcommittee of the House Judiciary Committee has begun a study of one of the oldest and most perplexing problems of American federalism—the right of individual states to tax interstate commerce.

The impetus for the study, which will be conducted under the chairmanship of Rep. Edwin E. Willis (D.-La.), was a series of Supreme Court decisions which, in effect, gave the states considerable power in this area.

There were 2 key decisions. In the first, the Court held that a state could tax the net income of an out-of-state corporation even though all the income came from activities in interstate commerce. In the second instance, it dismissed an appeal from a state court decision allowing a state to levy an income tax on a company that had no office within its boundaries but merely sent in traveling representatives.

In the past, Congress has enacted almost no legislation indicating what the states may or may not tax. The Willis committee study, which has an advisory panel headed by Prof. Ernest J. Brown of the Harvard Law School, will probably recommend some remedial action.

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Secretary of the Treasury Dillon has made a strong appeal to Congress in behalf of the Administration's proposal for long-term financing of foreign aid loans to underdeveloped countries. The proposal would permit the government to withdraw \$8.8 billion from the Treasury over the next 5 years without requiring annual Congressional appropriations.

The Administration feels that without a long-range commitment there is less incentive for a developing country to make the hard decisions that are necessary to achieve the maximum result.

Although many Congressmen can see the Administration's point, Congress has a natural aversion toward relinquishing any of its powers to the Executive branch. While it seems doubtful that Congress will approve the proposal, there is an outside chance that a majority might go along if it was accompanied by a sharp slash in foreign aid funds.